UNITED NATIONS

A

General Assembly

Distr.
GENERAL

A/C.5/51/4
20 September 1996

ORIGINAL: ENGLISH

Fifty-first session
FIFTH COMMITTEE
Agenda item 122

UNITED NATIONS PENSION SYSTEM

Investments of the United Nations Joint Staff Pension Fund

Report of the Secretary-General

I. INTRODUCTION

1. The General Assembly decided in 1992 to take up pension matters biennially, in even-numbered years. The present report on the investments of the United Nations Joint Staff Pension Fund (UNJSPF) covers the period from 1 April 1994 to 31 March 1996. The investment of the assets of the Fund is the fiduciary responsibility of the Secretary-General of the United Nations, who acts in consultation with the Investments Committee, taking into account the observations on broad policy of the United Nations Joint Staff Pension Board (UNJSPB) and the General Assembly. The Investments Committee provides advice to the Secretary-General on investment strategy and reviews the investment portfolio in detail. The representative of the Secretary-General for the investments of UNJSPF, who has been delegated the responsibility for the management and administration of the investments of the assets of the Fund by the Secretary-General, is assisted by the staff of the Investment Management Service. All investments must, at the time of purchase, meet the criteria of safety, profitability, liquidity and convertibility. These criteria have been endorsed by the General Assembly.

2. The report describes the economic and investment conditions that prevailed in the reporting period ended 31 March 1996 and provides information on the investment returns, the diversification of the investments and the development-related investments of the Fund. The data are based on the audited financial statements for the two calendar years 1994 and 1995 and the unaudited appraisals for the quarter ended 31 March 1996. In order to provide the General Assembly with the most timely information available, some data have been updated to 30 June 1996.

96-24749 (E) 041096 091096

II. ECONOMIC AND INVESTMENT CONDITIONS

3. This section reviews the economic and investment environment that prevailed during the two years ended 31 March 1996. Economic activities and financial markets within countries tend to follow cyclical patterns. Through diversification of assets by currency, by geography and by type of investment, the Fund strives to benefit from the differences between markets in order to preserve the principal of the Fund and to achieve better and more stable investment returns than would otherwise be obtained. The management of the assets of the Fund has followed a relatively cautious strategy of minimizing risk in order to obtain overall positive returns over the periods.

4. Economic activity continued to improve worldwide during most of the period under review but started to slow down in most major industrialized countries towards the end of the period. In 1994, the United States of America, Canada, the United Kingdom of Great Britain and Northern Ireland and Australia experienced relatively strong economic growth; economic recovery accelerated in continental Europe; Japan started to show signs of improved economic activities; and the developing economies experienced above average growth rates. Inflation worldwide remained low by historical standards, but interest rates in many places increased slightly, led by the United States where the central bank progressively increased short-term rates in order to prevent inflationary pressures triggered by stronger than expected growth. By the end of the period, largely owing to the successful efforts of major central banks, some major economies achieved a lower sustainable growth with low inflation, while Japan appeared to be firmly on the path of economic recovery. In the second half of 1995, as the growth of some economies slowed sharply, interest rates were gradually reduced again. Commodity prices, which registered sharp increases in 1994 and then stabilized for a while, ended the year 1995 substantially higher, not so much owing to increased demand as to shortages in supply, inventory declines, and weather-related factors. The period under review can be characterized as one of transition, in which most economies continued structural reforms to liberalize trade and investments by local and international investors, and also to reduce budget deficits. Other key events that created volatility in the currency and financial markets included the derivative losses incurred by established institutions and corporations, the Mexican financial crisis, which affected emerging markets in general, the strength of the yen against the dollar, and the continued struggle by the European Union to meet the convergence criteria for economic and monetary union.

5. In North America, the economy in the United States achieved strong growth in the gross domestic product of 4.1 per cent during 1994, which was reduced to a more sustainable growth rate of 2.1 per cent in 1995. Low levels of inflation prolonged the economic expansion. This was achieved mainly through a series of interest rate increases by the Federal Reserve Bank starting in February 1994, which, by restricting monetary growth and liquidity, prevented inflation from feeding into the system. Inflation, as measured by the consumer price index, remained relatively low, rising from 2.5 per cent at the end of March 1994 to 2.9 per cent at the end of March 1995, and at the end of the period under review, was at 2.8 per cent. This can be compared with a level of 4.9 per cent in March 1991, at the beginning of the economic expansion. Unemployment declined from 6.5 per cent to 5.6 per cent. The Canadian economy mirrored that

of the United States, with its gross domestic product growth slowing from 4.3 per cent during 1994 to 2.2 per cent in 1995. The engine of growth continued to be the export sector. Unemployment and national and provincial deficits, even though on a declining trend, remained high.

6. In Europe, Germany, the Netherlands, France and Switzerland the economies emerged from recession in the second quarter of 1994. Various sectors like capital goods, investment, consumer spending and exports showed signs of recovery, which accelerated as the year progressed. The United Kingdom, which was ahead in the economic cycle, registered relatively strong growth. The benefit of declining interest rates in much of continental Europe boosted economic recovery which continued into most of 1995. As the year progressed, however, the requirements of the Maastricht Treaty on convergence criteria for economic and monetary union and the resulting conflict between the need for fiscal discipline and the demands of social welfare caused volatility in currency, bond and equity markets. These began to take their toll on economic activities and, towards the end of 1995, a sharp slowdown in economic growth was evident. In the first quarter of 1996, the United Kingdom and France were showing stronger growth but Germany and Switzerland were encountering difficulties.

7. Central and Eastern European countries and the Commonwealth of Independent States continued to show progress in the restructuring of their economies. The Polish economy continued to thrive after four years of strong economic growth. The Czech Republic benefited from foreign capital inflows and is reorienting its exports to Western markets. With better growth and more stable inflation, Hungary will soon apply to be a member of the Organisation for Economic Cooperation and Development (OECD). For the region as a whole, reform, privatization and liberalization seemed very much the order of the day.

8. In Asia, the Japanese economic recovery was stalled by a series of unexpected natural and man-made disasters, among them political uncertainties, an earthquake, terrorist attacks, the banking crisis, the unprecedented strength of the yen and trade disputes. By the end of the period under review, however, progress had been made on most fronts, and the economy is now showing the strongest signs of recovery in five years, with increased liquidity, lower inventories, stronger consumption and capital expenditure, and improved business confidence. A record low official discount rate, 0.5 per cent, a weaker yen, and the restructured economy are expected to put the country in a more competitive position to boost gross domestic product growth from 0.3 per cent in 1994 and 1 per cent in 1995 to a healthy 3 per cent forecast for 1996.

9. In the rest of Asia, economic growth has been robust, at an average annual rate of 8 per cent. As a result, inflation became a major concern throughout the region, and measures to control inflation, as exemplified by China's austerity programmes since early 1994, have had a dampening effect on investment and economic activities. Political uncertainties also affected sentiment, causing corrections in the property market, e.g., Hong Kong, and even capital flight in some cases, as in Taiwan Province of China during the Taiwan Strait crisis. By the end of the period under review, these uncertainties had subsided somewhat with the completion of two general elections in Asia, i.e., Australia and Taiwan Province of China. Among encouraging economic signs, Japan's

recovery and China's easing of its austerity programme bode well for the regional economies, including resource-based ones such as Australia and New Zealand, which are poised for a resurgence in activities as a result of stronger demand.

10. The other developing economies as a whole experienced varying rates of growth. After robust growth in 1994 that was fuelled in part by exports, Argentina's economy went into recession in 1995. Unemployment rose and private sector credit fell. In the wake of the Mexican crisis, there was a massive outflow of money from Argentina's banking system but an International Monetary Fund (IMF) rescue package helped restore stability and confidence and funds gradually returned to the banking system in early 1996. In Brazil, after years of high inflation and currency instability, the Real plan succeeded in stabilizing the currency and lowering inflation, resulting in a sharp increase in the purchasing power of consumers, particularly at the lower income levels. The Government began to address the issue of privatizing State-owned companies and made important constitutional reforms. Chile's economy registered strong growth over the past two years, fuelled by strong domestic demand, high export volumes and firm prices of major commodities such as copper, pulp and paper. Economic growth in Asian emerging markets remained strong over the past two years, with a high level of exports and rising domestic demand in most economies. Foreign direct investment into the region remained high. India continued to liberalize its economy and enhance efficiency.

11. Economic growth in the Middle East benefited from the signing of the peace accord and greater stability in the region. In Africa, many countries continued to implement structural adjustment programmes, liberalize their economies and achieve greater efficiencies through privatization. In Kenya, foreign exchange controls were removed and interest rates were deregulated. However, many economies, including that of Zimbabwe, remained highly dependent on agriculture and were affected by factors such as long droughts. South Africa's economy continued to benefit from the change in political structure, with increasing gross domestic product and declining inflation rates.

12. The world financial markets experienced high volatility during the period under review. Early in 1994, a reversal in the multi-year trend of declining interest rates took place in the United States that had wide-ranging effects worldwide. The increase in short-term interest rates also caused long-term rates to go up, and bond markets worldwide experienced their worst year in many years. The sharp devaluation of the Mexican peso and subsequent financial crisis in Mexico at the end of 1994 and the beginning of 1995 triggered the "Tequila Effect", so-called for its indiscriminate spreading of negative sentiment towards almost all emerging markets. In addition, the collapse of a major financial institution and major derivative losses by established institutions and corporations caused central banks to tighten controls to rid the financial system of speculative excesses. As a result, most emerging markets and those in countries with high current account deficits had very weak performances in 1994.

13. In 1995, the markets were driven by the themes of downsizing, restructuring and consolidation. These themes started in the United States and were propelled by advances in technology and the widespread use of multimedia communications.

Liquidity increased as a result of declining interest rates and cross-border capital flows were strong. Improving corporate balance sheets led to high levels of merger and acquisition activities in many countries. Many major markets, led by the United States, made impressive advances and registered record high levels.

III. INVESTMENT RETURN

A. Return for the year

14. The market value of the assets of the UNJSPF increased to US$ 15,539 million on 31 March 1996 from $12,534 million on 31 March 1994, an increase of $3,005 million, or 24 per cent. The total investment return for the year to 31 March 1995 was 8.7 per cent and for the year to 31 March 1996 was 14.6 per cent, which, after adjustment by the United States consumer price index, represent positive "real" rates of return of 5.6 per cent and 11.5 per cent, respectively.

15. The strength of the major currencies against the United States dollar contributed significantly to the total return for the period ended 31 March 1995. The investments denominated in Japanese yen, Netherlands guilder and deutsche mark had a positive impact on the total return. Among asset classes, the Fund's exposure to non-United States dollar bonds contributed more to the total return than any other asset class of the Fund. In the period ended 31 March 1996, market weightings and market performance contributed more to the total return. The equity portfolio significantly outperformed all other asset classes.

16. The rates of return contained in the present report have been calculated by an outside consultant, using a generally accepted method that was fully explained in the report on the management of the investments submitted to the Board at its thirty-fourth session. The method includes actual income received from dividends and interest as well as realized capital gains and losses, and takes into account changes in the market value of the investments and the timing of cash flows.

17. Table 1 below shows the contribution of each asset class to the total return for the years 1993 to 1996.

18. For the year ended 31 March 1995, the bond portfolio had the highest return of 12.9 per cent, followed by the equity portfolio with a return of 8.1 per cent. However, for the year ended 31 March 1996, the equity portfolio, with a return of 20.5 per cent, significantly outperformed the bond portfolio, which had a return of 5.1 per cent. The real estate portfolio was the second-best performing asset class, with a healthy return of 10.4 per cent. Of the four years shown in table 1, United States equities outperformed non-United States equities in 1996, 1995 and 1993 while non-United States bonds outperformed United States bonds in 1995, 1994 and 1993.

19. It must be stressed again that short-term results have little meaning in the context of a long-term investment strategy. Short-term results are largely

influenced by the volatility of securities markets, which are difficult to predict and impossible to control. The management of the Fund is geared to maintaining a careful balance between risk and reward expectations over the medium to long term, rather than taking the risk inherent in seeking very high short-term returns. These considerations are even more pertinent now, taking into account the economic and market environment experienced during the period under review.

Table 1

Total Fund: percentage rates of total return based on market value for the years ending 31 March

	1996	1995	1994	1993
Equities				
United States equities	30.2	11.1	-2.7	17.3
Equities outside United States	15.1	6.5	24.4	6.7
Total equities	20.5	8.1	12.4	11.2
Bonds				
United States dollar bonds	8.0	2.9	3.4	15.9
Non-United States dollar bonds	3.3	18.6	10.1	17.7
Total bonds	5.1	12.9	7.7	16.9
Real estate	10.4	0.0	0.5	-6.6
Short-term investments and reserves	4.1	5.0	2.5	7.5
Total Fund	14.6	8.7	9.7	11.6

B. Long-term rates of return

20. The strategy of UNJSPF requires a focus on returns that covers periods longer than one year. To provide a longer-term perspective, the annual rates of return from 1962 to 1996 are shown in table 2. It shows the annual rates of return for the total Fund and for the different asset classes over the last 36 years. Table 3 provides detailed information on the returns for the years 1994, 1995 and 1996, which were 9.7 per cent, 8.7 per cent and 14.6 per cent respectively. The cumulative annualized total returns for the last 5, 10, 15, 20 and 25 years were approximately 10.4 per cent, 10.5 per cent, 12.1 per cent, 11.3 per cent and 9.9 per cent, respectively. The cumulative annualized total rate of return over the 36-year period for which data are available was 8.8 per cent, representing a yearly "real" rate of return of 3.7 per cent after adjustment by the United States consumer price index.

Table 2

Total Fund: annual total rate of return, percentages based on market value, 31 March 1962-31 March 1996

	Equities				Bonds							
Year	United States	Outside United States	Total	World market index a/	United States	Outside United States	Total b/	World bond index c/	Real estate	Short term	Total Fund	Year
1962	12.37	0.87	11.65	-	-	-	3.91	-	-	-	6.61	1962
1963	(0.60)	(16.34)	(0.59)	-	-	-	5.49	-	-	-	4.07	1963
1964	18.18	7.48	17.45	-	-	-	2.12	-	-	-	8.24	1964
1965	10.89	8.30	10.44	-	-	-	4.41	-	-	-	6.98	1965
1966	4.53	3.22	4.31	-	-	-	(2.14)	-	-	-	0.66	1966
1967	11.76	(2.32)	8.98	-	-	-	3.97	-	-	-	7.91	1967
1968	2.86	28.30	7.46	-	-	-	(4.89)	-	-	-	1.60	1968
1969	13.35	20.07	14.64	-	-	-	2.66	-	-	-	9.09	1969
1970	(5.10)	(2.18)	(4.49)	-	-	-	1.41	-	-	-	(1.75)	1970
1971	13.94	3.31	11.46	9.28	-	-	14.10	-	-	8.73	13.53	1971
1972	14.13	34.30	18.33	16.92	-	-	9.41	-	11.58	7.15	16.98	1972
1973	5.85	20.77	9.49	13.47	-	-	7.40	-	4.78	5.92	8.55	1973
1974	(16.70)	(21.48)	(18.10)	(16.40)	-	-	1.92	-	10.18	10.70	(13.55)	1974
1975	(11.20)	11.60	(5.16)	(6.09)	6.20	14.63	6.55	-	(1.03)	12.35	0.18	1975
1976	16.37	10.76	14.58	15.59	11.22	1.91	10.02	-	5.16	7.70	13.16	1976
1977	(8.25)	(3.75)	(6.62)	(0.95)	10.40	15.20	11.06	-	3.70	5.20	(0.26)	1977
1978	(5.60)	20.31	4.16	6.11	5.62	24.39	8.72	-	8.25	7.67	6.12	1978
1979	22.36	21.67	22.07	21.27	4.70	12.50	6.63	8.04	16.86	8.56	15.07	1979
1980	10.89	(10.31)	1.08	(0.18)	(9.53)	(4.64)	(7.63)	(13.16)	17.42	11.75	(0.39)	1980
1981	43.19	39.60	41.45	34.80	14.99	9.45	12.51	20.38	14.71	15.76	26.60	1981
1982	(17.88)	(19.64)	(18.77)	(15.00)	11.08	0.40	6.20	(0.69)	17.51	17.95	(7.85)	1982
1983	40.91	23.60	33.55	31.60	32.53	14.54	24.89	20.54	7.07	12.76	27.05	1983

Year	Equities				Bonds				Real estate	Short term	Total Fund	Year
	United States	Outside United States	Total	World market index a/	United States	Outside United States	Total b/	World bond index c/				
1984	5.08	32.46	15.66	17.30	5.46	12.42	8.67	8.20	13.33	13.07	13.01	1984
1985	20.75	(6.82)	9.54	7.20	17.86	(8.22)	4.53	5.50	13.47	3.62	8.09	1985
1986	34.95	58.48	43.44	56.02	54.30	50.33	51.21	48.70	10.75	6.95	41.52	1986
1987	21.63	43.88	30.01	43.22	9.14	32.63	22.59	17.42	12.67	11.97	24.69	1987
1988	(12.18)	2.15	(4.74)	5.81	3.26	20.24	12.65	11.42	9.19	7.67	3.10	1988
1989	13.20	10.00	11.30	13.56	2.10	(5.50)	(2.40)	0.36	8.20	10.40	5.90	1989
1990	21.54	13.21	16.57	(2.30)	10.47	2.93	6.20	3.12	12.31	9.72	11.56	1990
1991	8.9	1.2	4.5	3.2	12.5	17.4	15.0	16.2	5.1	13.1	8.9	1991
1992	11.3	0.1	4.9	(0.5)	13.7	14.0	14.0	14.0	(4.1)	6.5	7.6	1992
1993	17.3	6.7	11.2	12.7	15.9	17.7	16.9	19.0	(6.6)	7.5	11.6	1993
1994	(2.7)	24.4	12.4	14.0	3.4	10.1	7.7	6.8	0.5	3.0	9.7	1994
1995	11.1	6.5	8.1	9.8	2.9	18.6	12.9	12.1	0.0	5.0	8.7	1995
1996	30.2	15.1	20.5	20.7	8.0	3.3	5.1	5.3	10.4	4.1	14.6	1996

a/ Source: Morgan Stanley Capital International S.A., Geneva.

b/ The proportion of bonds held outside the United States was not significant prior to 1975.

c/ Source: Salomon Brothers Inc., New York.

/...

Table 3

Total Fund: annual rates of return based on market value, percentages for selected periods ending 31 March

	1996	1995	1994	5 years up to 1996	10 years up to 1996	15 years up to 1996	20 years up to 1996	25 years up to 1996	36 years up to 1996 a/
United States equities	30.2	11.1	(2.7)	12.9	11.4	12.5	12.1	9.7	9.5
Equities outside United States	15.1	6.5	24.4	10.2	11.7	12.5	12.4	11.8	10.3
Total equities	20.5	8.1	12.4	11.3	11.1	12.2	12.0	10.1	9.7
United States bonds	8.0	2.9	3.4	8.6	8.3	13.0	10.9	10.2	8.0
Bonds outside United States b/	3.3	18.6	10.1	12.6	12.7	12.5	12.1	-	-
Total bonds	5.1	12.9	7.7	11.2	11.0	13.2	11.4	10.5	8.3
Real estate related c/	10.4	0.0	0.5	(0.1)	4.7	7.2	8.4	-	-
Short-term investments	4.1	5.0	3.0	5.0	7.7	8.7	9.0	-	-
Total Fund in United States dollars	14.6	8.7	9.7	10.4	10.5	12.1	11.3	9.9	8.8
Inflation-adjusted return (based on United States CPI)	11.5	5.6	7.0	7.3	6.7	8.0	5.7	4.1	3.7
Total Fund in ECU	21.5	(5.8)	14.2	9.4	7.2	-	-	-	-
Inflation-adjusted return (based on ECU countries' CPI) d/	18.3	(8.2)	11.1	5.7	3.2	-	-	-	-

a/ The Fund's performance has been calculated for the last 36 years.

b/ The proportion of bonds held outside the United States was not significant prior to 1975.

c/ No real estate investments were held prior to 1972.

d/ No significant data prior to 1979.

21. 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. At the same time, the investments are assessed 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 and liabilities. Periods of five years or longer are usually considered to be reasonable periods in which to assess the investment results.

IV. INVESTMENT DIVERSIFICATION

22. The policy of broad diversification of investments by currency, types of asset classes and geographical areas continued to be the most reliable method to reduce risk and improve returns over long periods of time. UNJSPF is unique among major pension funds in its commitment to global investment. Figures I and II show the diversification geographically and by currency, respectively. In terms of geographical diversification, the proportion of the Fund invested in North America increased slightly to 38 per cent from 37 per cent. Investments in Europe were at the same level as in 1994 in percentage terms. In the Far East, the proportion of investments increased to 24 per cent from 22 per cent owing to net buying and appreciation. With the geographic changes, the currency diversification also changed as discussed above. Tables 4 and 5 provide detailed breakdowns of the diversification by geography and by currency.

Figure I

Total Fund: geographic diversification
31 March 1994, 1995 and 1996

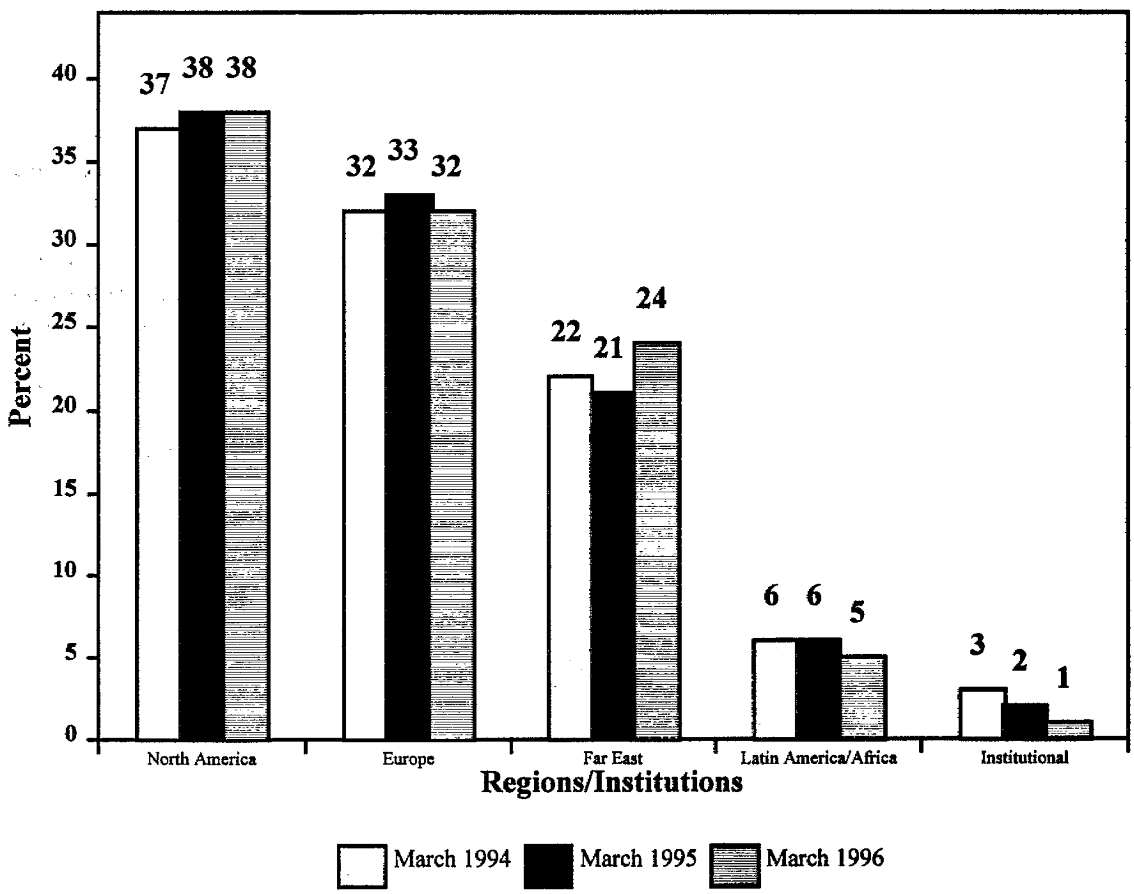

Figure II

Total Fund: currency diversification
31 March 1994, 1995 and 1996

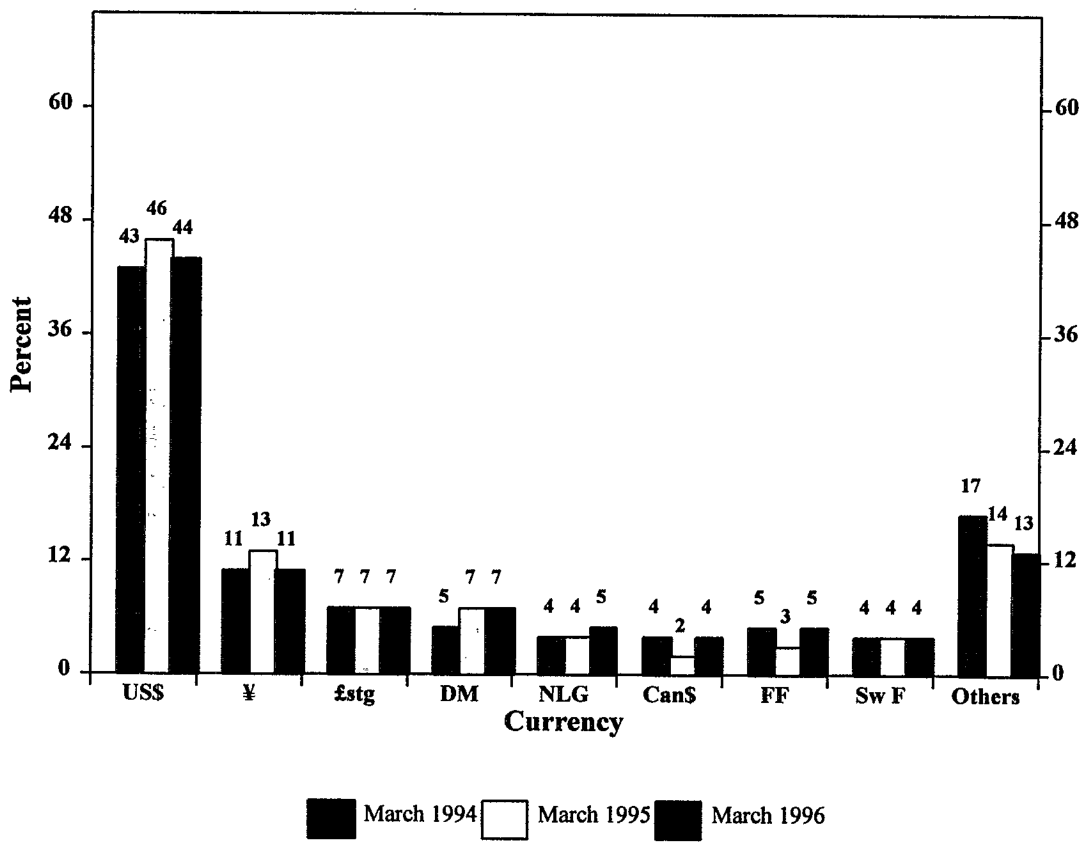

Table 4

Total Fund: countries/areas of investment a/

Market value as at 31 March 1996

(In millions of United States dollars)

Countries/areas	Currencies other than United States dollars	United States dollars	Total	Percentage
Argentina	0.0	44.9	44.9	0.29
Australia	281.2	73.5	354.6	2.28
Austria	35.7	0.0	35.7	0.23
Belgium	52.8	0.0	52.8	0.34
Brazil	35.6	6.9	42.5	0.27
Canada	339.9	189.4	529.3	3.41
Chile	0.0	21.4	21.4	0.14
China	6.2	36.5	42.7	0.27
Colombia	0.0	7.9	7.9	0.05
Denmark	183.9	24.3	208.2	1.34
Emerging markets	0.0	25.4	25.4	0.16
Finland	44.0	0.0	44.0	0.28
France	515.2	0.0	515.2	3.32
Germany	1 003.9	40.7	1 044.7	6.72
Ghana	8.3	0.0	8.3	0.05
Greece	18.7	0.0	18.7	0.12
Hong Kong	308.4	42.4	350.8	2.26
Hungary	0.0	12.0	12.0	0.08
Iceland	0.0	14.2	14.2	0.09
India	11.8	25.3	37.1	0.24
Indonesia	0.0	10.3	10.3	0.07
International institutions	10.7	169.7	180.4	1.16
Ireland	90.5	10.6	101.2	0.65
Israel	0.0	23.4	23.4	0.15
Italy	153.3	11.6	164.9	1.06
Japan	1 876.7	16.6	1 893.3	12.18
Jordan	5.3	0.0	5.3	0.03
Kenya	1.6	0.0	1.6	0.01

/...

Countries/areas		Currencies other than United States dollars		United States dollars	Total	Percentage
Malaysia		168.1		27.7	195.8	1.26
Mauritius		0.0		3.0	3.0	0.02
Mexico		15.8		43.0	58.8	0.38
Netherlands		679.0		48.6	727.6	4.68
New Zealand		152.0		24.4	176.4	1.14
Norway		47.3		0.0	47.3	0.30
Pakistan		0.0		2.5	2.5	0.02
Philippines		36.3		32.5	68.8	0.44
Portugal		8.5		5.1	13.6	0.09
Regional institutions - Africa		116.3		106.3	222.6	1.43
Regional institutions - Europe		121.0		148.9	269.8	1.74
Regional institutions - Latin America		38.3		102.3	140.6	0.90
Regional institutions - South-East Asia		155.6		136.3	291.9	1.88
Republic of Korea		0.0		124.7	124.7	0.80
Russian Federation		12.2		0.0	12.2	0.08
Singapore		172.4		0.0	172.4	1.11
South Africa		74.7		10.6	85.3	0.55
Sweden		53.9		170.9	224.8	1.45
Switzerland		381.1		24.8	405.9	2.61
Tunisia		4.9		0.0	4.9	0.03
Turkey		6.8		4.1	10.9	0.07
United Kingdom of Great Britain and Northern Ireland		1 093.8		20.5	1 114.3	7.17
Total outside United States of America	53.5%	8 321.8	11.9%	1 842.9	10 164.7	65.41
United States of America	0.0%	0.0	34.6%	5 374.6	5 374.6	34.59
Total Fund	53.5%	8 321.8	46.5%	7 217.4	15 539.2	100.00

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

/...

Table 5

Total Fund: currencies other than United States dollars a/

Market value as at 31 March 1996

Currency	United States dollar equivalent (millions)	Percentage
Australian dollar	281.1	3.3
Austrian schilling	35.7	0.4
Belgian franc	52.8	0.6
Brazilian real	35.6	0.4
Canadian dollar	367.2	4.4
Danish krone	183.9	2.2
Deutsche mark	1 034.5	12.3
European currency unit	5.1	0.1
Finnish markka	44.0	0.5
French franc	515.3	6.1
Greek drachma	18.7	0.2
Hong Kong dollar	314.6	3.7
Irish pound	90.5	1.1
Italian lira	153.3	1.8
Japanese yen	2 028.9	24.1
Jordanian dinar	5.3	0.1
Kenyan schilling	1.6	0.0
Malaysian ringgit	155.6	1.8
Mexican new peso	15.8	0.2
Netherlands guilder	679.1	8.1
New Zealand dollar	152.0	1.8
Norwegian krone	47.3	0.6
Philippine peso	36.3	0.4
Pound sterling	1 141	13.5
Singapore dollar	184.9	2.2

Currency	United States dollar equivalent (millions)	Percentage
South Africa rand	74.7	0.9
Swedish krona	171.0	2.0
Swiss franc b/	594.1	7.0
Turkish lira	6.8	0.1
Total non-United States dollar	8 427.0	100.0

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

b/ Includes various investment trusts, which trade in currencies other than the currencies of the investment.

V. INVESTMENTS IN DEVELOPING COUNTRIES

23. In compliance with the requests of the General Assembly to invest in developing countries in accordance with the established investment criteria, efforts were made to identify appropriate investment opportunities. Direct and indirect investments in developing countries amounted to $1,883 million at cost on 30 June 1996, an increase of 8 per cent since 30 June 1994. The details of these investments are provided in table 6. The increases were a result of additional investments in Latin America, which increased by 4 per cent; investments in Asia increased by 24 per cent and investments in Africa increased by 13 per cent. Development-related investments accounted for 14.8 per cent of the Fund's assets at book value; about 41 per cent of these holdings were denominated in currencies other than the United States dollar.

24. The Investment Management Service continues to have close contacts with the World Bank, IMF, regional development banks and private sources in order to take advantage of investment opportunities in developing countries. Several investment visits were undertaken in Africa, Latin America, the Middle East and Asia during the period under review. A number of emerging economies are developing their capital markets in order to offer long-term investment opportunities to institutional investors. Continued privatization programmes initiated in some African countries and the continued opening and development of financial markets increased investment activities in these countries. The Fund continues to actively explore investment opportunities in these markets.

25. Despite the growth of capital markets in some developing countries, restrictions still exist that preclude the Fund from investing directly in domestic financial markets. However, owing to recent active privatization and continued launching of investment trusts and country funds, the Fund has been able to increase its investments in some markets. In other cases, the only feasible option is to invest in development-related securities through the specialized international and regional institutions that issue securities. These securities are usually bonds denominated in convertible currencies and are traded actively in the markets in which they were issued. These debt instruments are considered high-quality investments. As these institutions are geared to provide funds for projects in developing countries, they have the necessary expertise to undertake the detailed analyses and feasibility studies that are required for direct investments in individual projects. Investments in these securities are the most effective means of complying both with the requests of the General Assembly and with the investment criteria of UNJSPF.

/...

Table 6

Development-related investments: book value as at 30 June 1994 and 30 June 1996

(In thousands of United States dollars)

Regions/countries	United States dollars	Other currencies	Total 1996	Total 1994
Africa				
Ghana	7 122		7 122	1 500
Kenya	0	219	219	219
Mauritius	3 000	0	3 000	3 000
South Africa	14 986	76 342	91 328	
Tunisia	0	4 633	4 633	4 633
Regional funds	7 270	0	7 270	5 884
	32 378	81 194	113 572	15 236
Development institutions	96 114	94 210	190 324	254 681
Total Africa	128 492	175 404	303 896	269 917
Asia				
China	27 982	5 934	33 916	52 108
Hong Kong	18 412	138 568	156 980	160 908
India	17 081	7 179	24 260	18 771
Indonesia	10 383	0	10 383	10 383
Jordan	0	4 511	4 511	4 115
Malaysia	26 199	52 260	78 459	87 704
Pakistan	2 375	0	2 375	1 995
Philippines	13 524	36 131	49 655	35 778
Republic of Korea	120 261	0	120 261	65 475
Singapore	0	82 224	82 224	62 597
Regional funds	63 392	26 788	90 180	51 401
	299 609	353 595	653 204	551 235
Development institutions	133 476	34 648	168 124	111 720
Total Asia	433 085	388 243	821 328	662 955
Europe				
Turkey	5 762	7 276	13 038	12 837
Regional funds	99 022	36 549	135 571	68 663
Total Europe	104 784	43 825	148 609	81 500

/...

Regions/countries	United States dollars	Other currencies	Total 1996	Total 1994
Latin America				
Argentina	58 295	0	58 295	45 674
Brazil	3 652	35 140	38 792	14 664
Chile	19 963	0	19 963	8 686
Colombia	9 255	0	9 255	4 958
Mexico	50 316	1 120	51 436	87 494
Peru	0	2 006	2 006	0
Regional funds	14 788		14 788	9 788
	156 269	38 266	194 535	171 264
Development institutions	110 985	120 390	231 375	240 036
Total Latin America	267 254	158 656	425 910	411 300
Other development institutions (IBRD)	154 692	6 676	161 368	310 627
International Investment Trust (Emerging markets)	22 359	0	22 359	15 008
Total development-related	1 110 666	772 804	1 883 470	1 751 307

VI. ADVISORY SERVICES

26. In section VII of its resolution 49/224 of 23 December 1994, the General Assembly requested the Secretary-General, among other things, to review the arrangements for the provision of institutional advice. The Fiduciary Trust Company International (FTCI) currently serves as the global investment adviser to the Fund. It makes recommendations on investment strategy and specific investment ideas for the Fund, conducts research and provides economic, market and security analyses. In addition to providing specific recommendations, in writing, on the purchase and sale of securities and economic analyses, the adviser meets each week with the staff of the Investment Management Service to review a portion of the portfolio and every six weeks to review the whole portfolio. The purpose of these meetings is to ensure that both staff and the advisers are fully informed of important developments in the financial markets. Through these exchange of views and information, asset allocation recommendations are discussed and formulated.

27. In the light of the General Assembly resolution, the Secretary-General decided that the arrangement be evaluated and a worldwide competitive bidding be conducted to identify one or more advisers to provide to the Investment Management Service, research, macro/microeconomic analyses, securities, market and sector analyses (global and regional). Such an investment adviser(s) will also be responsible for making recommendations on specific securities asset class, currency, and regional allocations. The current advisory contract between the United Nations and FTCI expired on 30 June 1996. As it was anticipated that the selection process would not be completed by the expiration date, the current contract was extended for a maximum period of 270 days or such earlier date as the United Nations would provide written notice to FTCI.

28. A request for proposal was prepared by outside legal counsel with expertise in this area and in consultation with the United Nations Office of Legal Affairs and the staff of the Investment Management Service. The request was divided into four major sections: an overview of the Fund and its investment arrangements, proposal instructions, the business profile and the proposal questions. After sending the request to potential bidders, a pre-proposal informational meeting was held on 15 February 1996, and 24 institutions attended the meeting. Twelve institutions submitted acceptable responses to the request; one institution was disqualified for submitting the response beyond the deadline. The 12 institutions were from the following countries: France (2), Japan (3), the United Kingdom (2) and the United States (5).

29. Under the United Nations rules on contractual arrangements, the contracting office would present their recommendations to the United Nations Committee on Contracts. Owing to the specialized nature of the investment advisory services, the Secretary-General set up a High-Level Contracting Group of five members headed by the Controller of the United Nations. The Group includes officials from United Nations programmes and agencies as well as the Secretary of the Pension Board. The Group will review the Investment Management Service recommendations and the background documentation and will arrive at its own conclusions. The Group will make its recommendations of one or more investment advisers to the representative of the Secretary-General sometime in October.

The Secretary-General will make the final selection on the type of advisory arrangement to implement and institutions to be awarded the contract(s).

VII. BENCHMARK

30. In section VI of its resolution 49/224, the General Assembly requested the Secretary-General to present in future reports to the General Assembly means of comparing performance with relevant benchmarks and other pension funds. Extensive efforts have been made over the last two years by the representative of the Secretary-General, the staff of the Investment Management Service and the Investments Committee, with the assistance of outside consultants, to develop an appropriate benchmark for the Fund. It is expected that a benchmark would be in place by January 1997.

VIII. CONCLUSION

31. The economic environment which prevailed during the period under review was characterized by asynchronized economic activities among the major industrialized countries. By the end of the period, the initial relatively strong growth in the United States, Canada and the United Kingdom had slowed, economic recovery in some European economies had lost momentum, while Japan appeared to be on a firm recovery path. The smaller economies in South-East Asia and Latin America continued to enjoy positive economic growth. Interest rates appeared to have come full circle in the United States and the United Kingdom, having increased and then decreased, while rates appeared to be at or near the bottom of the cycle in much of continental Europe and in Japan. The financial markets performed well, especially in the second half of the period under review. The Fund's return of 14.6 per cent for the year ended 31 March 1996 was the highest return during the last eight years. The Fund continued to benefit from its policy of broad diversification of assets, currencies and countries of investments. This policy of diversification combined with strategies developed to take advantage of market and currency movements allowed the Fund to achieve another two years of positive returns despite volatility in the financial markets. The period reviewed represented the thirteenth and fourteenth consecutive years of positive investment returns for the Fund.
