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Audit of governance mechanisms and related processes in the Office of Investment Management of the United Nations Joint Staff Pension Fund

Report of the Office of Internal Oversight Services

Summary

The Office of Internal Oversight Services (OIOS) conducted an audit of governance mechanisms and related processes in the Office of Investment Management of the United Nations Joint Staff Pension Fund.

The audit showed that governance mechanisms and related processes in the Office of Investment Management need to be strengthened by: (a) revising the delegation of authority and terms of reference for the Representative of the Secretary-General for the investment of the assets of the United Nations Joint Staff Pension Fund to focus the responsibility and authority of the Representative on setting investment policy and strategy and providing oversight over investment management; (b) suitably redefining the role of the Director of the Office to lead investment decision-making within the parameters of the investment policy and strategy, under the oversight of the Representative; and (c) developing and implementing a culture transformation programme to cultivate a harmonious, high-performing and ethical culture in the Office. OIOS considers these areas to be of critical importance.

Other areas for improving the governance arrangements included: (a) revising the terms of reference for the Investments Committee as appropriate to strengthen its relative independence; (b) strengthening the operational independence of the Risk and Compliance Section; (c) enhancing the effectiveness of the internal committees established in the Office of Investment Management; (d) conducting a bottom-up workforce planning exercise to determine capacity gaps and address them as appropriate to implement the investment strategy in a cost-effective manner; (e) reviewing the validity of the inputs used for the 2019 asset-liability management study and strategic asset allocation, taking into consideration the subsequent changes

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in the economic and market environment; (f) reassessing the appropriateness of the new benchmark for fixed income and clarifying in the investment procedures the steps to be followed when changing the policy benchmarks; (g) enhancing transparency in the investment policy statement; (h) reviewing the compact between the Secretary-General and the Representative to strengthen accountability for both short- and long-term performance; and (i) developing and implementing detailed disclosure and recusal procedures to manage potential conflict of interest situations effectively, in the best interests of the Fund.

OIOS made two critical and eight important recommendations. The Executive Office of the Secretary-General accepted all the recommendations and has initiated action to implement them in coordination with the Office of Investment Management.

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I. Introduction

1. The Office of Internal Oversight Services (OIOS) conducted an audit of governance mechanisms and related processes in the Office of Investment Management of the United Nations Joint Staff Pension Fund from February to May 2020. The objective of the audit was to assess the adequacy and effectiveness of internal controls, including checks and balances, pertaining to governance mechanisms and related processes in the Office of Investment Management.

2. The audit scope included a review of: (a) governance mechanisms in the Office of Investment Management; (b) strategy setting and implementation; (c) performance management and accountability; and (d) the control environment in the Office. The audit methodology included: (a) reviews of relevant documentation; (b) interviews with process owners and responsible personnel; (c) analytical reviews of data; (d) tests of controls; and (e) observation of meetings. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

II. Governance structure for the investment of the assets of the United Nations Joint Staff Pension Fund

A. Secretary-General of the United Nations

3. In its resolution 248 (III) of December 1948, the General Assembly established the Fund and accorded the responsibility and authority for investment of the assets of the Fund to the Secretary-General. Article 19 (a) of the regulations of the Fund states that the investment of the assets of the Fund shall be decided upon by the Secretary-General after consultation with an Investments Committee and in the light of observations and suggestions made from time to time by the United Nations Joint Staff Pension Board on the investment policy. Article 19 (b) states that the Secretary-General shall arrange for the maintenance of detailed accounts of all investments and other transactions relating to the Fund, which shall be open to examination by the Board.

4. In its subsequent resolutions, the General Assembly has repeatedly reaffirmed that the Secretary-General serves as fiduciary for the investment of the assets of the Fund and that the decisions of the Secretary-General concerning the investments of the Fund should be guided by the key criteria of safety, profitability, liquidity and convertibility.

B. Representative of the Secretary-General for the investment of the assets of the United Nations Joint Staff Pension Fund

1. Part-time and full-time Representatives

5. In practice, the Secretary-General has delegated the responsibility and authority for the investment of the Fund's assets to his Representative, which, until 2014, was a post that was traditionally occupied by an Under-Secretary-General or an Assistant Secretary-General of the United Nations Secretariat on a part-time basis. This arrangement, together with a lean organizational structure for investment management operations, was effective considering that: (a) as at 31 December 2014, the Fund had achieved an annual real rate of return of 5.1 per cent over 25 years, thereby exceeding the 3.5 per cent long-term investment objective; and (b) the Fund was close to being fully funded according to the thirty-second actuarial valuation of the Fund, conducted in 2014.

6. In 2013, however, the then Representative proposed the establishment of a full-time post of Representative at the level of Assistant Secretary-General on the grounds that the existing senior management structure for investments of the Fund (which was headed by a Director of the Investment Management Division at the D-2 level) was thin and needed to be strengthened (see A/68/303). The then Representative also proposed that the Director be renamed as the Chief Investment Officer and redeployed to lead investment management, and that two posts be established at the D-1 level: Chief Operating Officer and Director for Private Markets. The Pension Board supported these proposals. Subsequently, in its resolution 68/247 B, the General Assembly approved the establishment of a full-time Representative at the level of Assistant Secretary-General, the terms of reference for the Representative and the two D-1 posts, but not the redeployment of the post of Director to serve as the Chief Investment Officer. A full-time Representative was appointed by the Secretary-General in October 2014.

2. Delegation of authority by the Secretary-General

7. Until January 2013, in the delegation of authority issued to the part-time Representatives, the Secretary-General stated that the responsibility to act on his behalf in all matters relating to the investment of the Fund's assets was delegated to the Representative, including representing the Secretary-General in meetings. However, in January 2013, when a new part-time Representative was appointed, a new paragraph was added to the delegation of authority, reading: "This delegation of responsibility and authority is personal to you. While you may have such assistance as is required to carry out the duties for which you have been delegated responsibility and authority, you may not further delegate such responsibility and authority." A discussion between OIOS and the Office of Legal Affairs during the present audit indicated that the new paragraph was intended to highlight the fact that the authority to make broad and strategic investment decisions, which was delegated by the Secretary-General to his Representative, may not be further delegated.

8. The new paragraph in the delegation of authority has caused considerable confusion in practice because it does not specify that the authority that may not be further delegated by the Representative is limited to "broad and strategic decision-making". Since it is not practicable for the Representative to make every single investment decision and carry out every related function by himself or herself, the incumbent would necessarily have to delegate some authority and responsibility further down the hierarchy. However, the manner and extent to which this should be done has remained open to interpretation and debate. Tension and conflict arose within the Office of Investment Management when the Representative used the new paragraph in the delegation of authority to assert sole authority and involved himself in decision-making on investment transactions, which in the past was routinely performed by the Deputy Director for Investments and senior investment officers. In the investment policy statement of 2019, the Representative highlighted the personal nature of the authority delegated to him by the Secretary-General.

9. While the new paragraph was added to the delegation of authority in January 2013, the Advisory Committee on Administrative and Budgetary Questions was informed subsequently that the Representative "currently delegates and oversees, on an ongoing basis, specific decision-making responsibilities to individuals within the Investment Management Division with respect to", inter alia, "transactions involving the assets of the Fund up to prescribed limits by asset class to specific individuals and, within asset classes, the geographical areas for which such individuals have transactional responsibilities, all in accordance with the strategic allocation policy then in effect" (A/68/805, para. 6). OIOS is of the view that the Secretary-General needs to clarify the delegation of authority to ensure that, while the authority to make

strategic decisions relating to investments of the Fund (such as setting the investment policy and strategic asset allocation) is vested in the Representative and may not be further delegated, responsible individuals in the Office of Investment Management must have the authority to make investment decisions within the limits set by the investment policy. As the principal fiduciary on behalf of the Secretary-General, the Representative should oversee the exercise of such delegated authority by ensuring that effective checks and balances are in place to protect the best interests of the Fund.

3. Terms of reference for the Representative

(a) Terms of reference introduced for the full-time Representative

10. While the delegation of authority was open to interpretation, under the terms of reference for the full-time Representative, the incumbent was unequivocally vested with comprehensive responsibility and authority over the investment of the Fund's assets. The terms of reference state that the Representative "will exercise discretionary authority over the investment of the assets of the Fund and will be responsible for the overall investment policy and for oversight and management of the investments of the Fund". In addition, the Representative "will lead the investment operations in terms of strategy and policy analysis, asset allocation, portfolio management and investment decision-making; risk management and compliance and monitoring; and back-office accounting, trade settlement, cash management and systems and information technology requirements".

(b) Roles played by the full-time Representatives

11. The previous two full-time Representatives exercised broad authority in accordance with the terms of reference. They not only represented the Secretary-General in interactions with stakeholders and set investment policy and the high-level investment strategy, but were also deeply involved in implementing the investment strategy and operational decision-making processes encompassing portfolio rebalancing, and in initiating and reviewing specific investment proposals. In addition, they were fully involved in administrative functions, including the recruitment of staff at all levels. In contrast, despite some ambiguity in the boundaries of their authority owing to the lack of written terms of reference at the time, the part-time Representatives traditionally limited their roles primarily to setting investment policy and strategy and providing oversight. The day-to-day investment management and operations were delegated to the Director of the Investment Management Division.

12. Under the delegation of authority and the terms of reference, the responsibility and authority of the full-time Representative are comparable with the three usually distinct and separate roles in peer investment funds: (a) Chair of a regular board, who acts as the principal fiduciary, sets high-level policies and oversees the organization; (b) Chief Executive Officer, who manages all the functions of the entity; and (c) Chief Investment Officer, who manages the investments in accordance with the investment policy. In the past, the part-time Representatives assumed roles and responsibilities that were more in keeping with those of Chair of an investment fund, whereas the Director of the Investment Management Division acted as the Chief Executive Officer and Chief Investment Officer of the fund. In other words, the functions of the former part-time Representative and the Director of the Investment Management Division were essentially merged in the post of full-time Representative, but the title "Director" remained the same because the role was not redefined or clarified under the new structure. This has profound implications for the governance structure of the Fund's investments in that: (a) investment oversight is merged with investment management, thereby weakening checks and balances and causing a number of problems, as detailed below; and (b) all responsibilities are concentrated in the Representative, which makes the qualification requirements, as well as the job itself,

very demanding. Although the terms of reference for the full-time Representative state that the incumbent shall be appointed for a term of up to five years, with the possibility of reappointment(s) up to a total maximum service of 10 years, neither of the two full-time Representatives appointed to date served even for five years.

(c) Checks and balances under the full-time Representatives

13. Under the Fund's bifurcated structure, the Pension Board has limited authority over investments, and the Investments Committee is a non-fiduciary advisory committee that provides non-binding advice to the Representative. The oversight role of the Representative is therefore crucial in maintaining adequate checks and balances, as well as in securing the trust and confidence of the Fund's stakeholders. The merging of management and oversight functions in a single post has enabled the Representative to set the rules and to act as "player" and "referee" at the same time. The fact that the Representative is involved in initiating and reviewing investment proposals and then acts as the final approver not only may stifle critical review of proposals and compromise the due diligence, including risk analysis, that is performed by subordinates of the Representative, but also raises concern over functional conflict of interest. The necessary relative independence that the risk and compliance teams used to have under the part-time Representatives was particularly compromised. Owing to the full-time Representatives' deep involvement in the processes, they were not best placed to serve as the final arbiter for resolving internal disagreements or differences of opinion on investment matters, nor could they objectively assure stakeholders of the soundness of the processes and decisions made. As a result, concerns relating to the actions or decisions of the Representatives were often escalated to the Secretary-General, thereby undermining confidence in their ability to effectively manage the Fund's investments.

14. Furthermore, under the full-time Representatives, the role of the Investments Committee was relatively diminished. Previously, the part-time Representatives, who did not necessarily have strong expertise in the industry, relied more on the Committee in formulating the Fund's investment policy and strategy and overseeing the functions performed by the Investment Management Division under the Director. Despite being an advisory committee, the Investments Committee acted as a quasi-fiduciary committee at that time, and its recommendations and the follow-up of their implementation were more formalized. In contrast, the full-time Representatives maintained the appearance of consulting with the Committee, but were less dependent on it for their decision-making on various issues. For example, the change of the benchmark for the fixed income portfolio in 2019 was almost finalized by the time it was presented to the Committee. The Representative also exercised control over the agenda and records of the meetings of the Investments Committee, as well as over the access of investment officers to the Committee's meetings.

15. According to the new strategic asset allocation adopted in 2019, the Office of Investment Management aims to invest 25 per cent of the Fund's assets in private markets, including 9 per cent in private equity, 12 per cent in real estate and 4 per cent in real assets. The Office also began to explore the use of new investment channels, such as co-investment. Investments in private markets are by nature more complex and less transparent than investments in public markets, and investment deals are initiated primarily through relationships with external fund managers. While the Private Markets Committee was established in 2018 to strengthen the review of investment proposals, independent oversight by the Representative is critical to ensuring that the investments are sound and free from any conflict of interest. The oversight function that is inherent in the role of the Representative must therefore be separated from investment management.

(d) Qualifications for the post of Representative

16. In a typical investment fund or organization, the three different roles of Chair, Chief Executive Officer and Chief Investment Officer require different qualifications and skill sets to enable the incumbents to perform their duties effectively. A "generalist" with strong communication, leadership and managerial skills, combined with reasonably good knowledge of investment and corporate governance, could perform the roles of Chair and Chief Executive Officer effectively. However, the role of Chief Investment Officer requires a "specialist" with expertise in investment management of an array of asset portfolios. Hiring candidates who possess a combination of these qualifications and skills could be quite challenging.

17. The terms of reference for the Representative require "over 20 years of proven progressively responsible experience in the management of economic, social security and/or financial policies and activities for governmental or intergovernmental organizations or for substantial private concerns, including a proven track record of extensive relevant experience in the management of the investment of complex portfolios of assets of various classes, such as pension funds, including their risk management, and in financial markets". The terms of reference further state that the required experience should include, inter alia, defining and overseeing investment policy and developing and implementing investment strategies. OIOS is of the view that the requirements of direct experience and a proven track record in managing complex investment portfolios relate to the role of Chief Investment Officer, which is only one of the roles of the Representative. As explained below, with the recommended change in the role of Director to that of Chief Investment Officer, the terms of reference and qualifications for the Representative would need to be reviewed and appropriately modified.

(e) Conclusion

18. The Fund operates in an environment that is very different from other public pension funds that are governed by national laws and justice systems, whereby the officials who have fiduciary responsibilities may be held personally liable for their actions. In the absence of such legal safeguards to protect the interests of the Fund's stakeholders, it is essential to have an effective governance structure for the investment of the Fund's assets, whereby critical roles are appropriately segregated and entrusted to competent professionals who not only act but are seen to act in the best interest of the Fund's participants and beneficiaries. Such a structure would help to avoid concentration of power and mitigate the risk of perceived or actual conflict of interest, ensuring the soundness of investment decisions and maintaining the confidence and trust of the Fund's stakeholders, including the Secretary-General. The current terms of reference therefore need to be revised to focus the responsibility and authority of the Representative on setting high-level policies and investment strategy (i.e. the investment policy and strategic asset allocation) and providing oversight over investment management. Accordingly, the role of the Director of the Office of Investment Management needs to be suitably redefined to perform the functions of Chief Investment Officer under the oversight of the Representative, which would entail the implementation of the investment policy and strategy that is set by the Representative in consultation with the Investments Committee and in the light of the observations and suggestions of the Pension Board.

Recommendation 1

The Secretary-General should: (a) review and revise the delegation of authority and terms of reference for his Representative for the investment of the assets of the United Nations Joint Staff Pension Fund to focus the responsibility and authority of the Representative on setting investment policy and strategy and providing oversight over investment management; and (b) suitably redefine the role of the Director of the Office of Investment Management to lead investment decision-making within the parameters of the investment policy and strategy, under the oversight of the Representative.

Comments of the Executive Office of the Secretary-General. The Executive Office of the Secretary-General accepted recommendation 1 and stated that the Secretary-General had endorsed, in May 2020, a new organizational structure, whereby the three pillars of the Office – investment management, risk management and compliance, and operations and information technology – will report directly to the Representative. Under this structure, the delegation of authority of the Representative, the Director of the Office of Investment Management and the Chiefs of the Risk and Compliance Section and the Operations and Information Systems Section will be adjusted to reflect the new segregation of duties.

Comments of OIOS. Recommendation 1 remains open pending receipt of the revised delegation of authority and terms of reference for the Representative that show the segregation of duties between the Representative and the Director, with the Representative's role focused on setting investment policy and strategy and providing oversight over investment management and the Director's role focused on investment management within the parameters of the investment policy and strategy.

C. Investments Committee

1. Relative independence of the Committee

19. Article 20 of the Fund's regulations states that the Investments Committee shall consist of nine members appointed by the Secretary-General after consultation with the Pension Board and the Advisory Committee on Administrative and Budgetary Questions, subject to confirmation by the General Assembly. According to the Investments Committee's terms of reference, the Secretary-General appoints regular members on the basis of their knowledge and experience in investments and the pension industry, and ad hoc members as the need arises. The members serve the committee on a pro bono basis and their service is limited to five terms, one term being three years.

20. The Investments Committee has been advising the Representative on the investments of the Fund, including the formulation of the investment strategy and investment policy, as well as other technical issues. The advice provided by the Committee is in direct response to the needs expressed or questions raised by the Representative or the investment officers. Given that the Committee's members are highly respected experts in the investment industry, their advice should not only strengthen the Fund's investment policy and strategy and bring them into line with industry best practices, but also provide an additional layer of assurance to the Fund's stakeholders. A certain degree of independence for the Committee would therefore be highly desirable, considering that the Fund does not have a fiduciary board or committee to oversee the Representative and the Office of Investment Management.

21. In 2019, the previous Representative proposed that two long-serving committee members should not be reappointed – something that had not happened in the past 15 years. The previous Representative had nominated four new members to the Committee, and the first full-time Representative had nominated three, and all the nominated candidates had been appointed. OIOS is of the view that, barring unforeseen circumstances, which should be appropriately justified, there should be a limit on the number of new members that a Representative can nominate in one term.[1] This is essential to ensuring the independence of the Committee's members and to discouraging them from going along with the Representative's decisions just to avoid being removed from the Committee.

2. Meetings of the Committee

22. The Committee's terms of reference state that the Committee meets formally four times a year, normally for one day. Ever since the Fund phased out its institutional investment advisers, the Committee members have been increasingly providing their views on the global economic and market outlook, which was previously provided by the institutional investment advisers. Furthermore, the Committee currently has more experts on private market investments. In the light of these changes, some of the Committee members and the Fund's investment officers indicated to OIOS the ways in which the interactions between the Committee and the investment officers could be improved so that the latter could derive greater benefit from the Committee's expertise. For that to happen, the modality of the Committee's meetings needs to be flexible, with more online meetings, more physical meetings in New York instead of other locations and better access for the Fund's investment officers to the Committee for advice on their portfolios. In this connection, OIOS noted that the previous two Representatives held 59 per cent of the Committee's meetings outside New York (compared with 32 per cent in the period from 2007 to 2013 under the previous Representatives). During their interactions with OIOS, the Committee members generally expressed their willingness to adapt to the needs of the Secretary-General, his Representative and the Office of Investment Management.

Recommendation 2

The Secretary-General should, in consultation with the Investments Committee, assess the experiences gained from the functioning of the Committee and revise the Committee's terms of reference as appropriate to strengthen its relative independence and enhance the effectiveness of its advisory role.

Comments of the Executive Office of the Secretary-General. The Executive Office of the Secretary-General accepted recommendation 2 and stated that, from April 2020, the acting Representative had met virtually on a monthly basis with the Investments Committee to receive advice from the members and to reflect on the working methods of the Committee. The Committee has agreed to change its working methods and meet on a monthly basis, rather than on a quarterly basis, to have a more focused and continuous discussion on the different parts of the portfolio. The objective is to have annually 10 online meetings and only two face-to-face meetings. These and other improvements will be included in the revised terms of reference of the Investments Committee.

[1] "One term" is used here to mean a period of up to 5 years. According to the terms of reference approved by the General Assembly in its resolution 68/247 B, the Representative shall be appointed for a term of up to 5 years, with possibility of reappointment(s) up to a total maximum service of 10 years.

Comments of OIOS. Recommendation 2 remains open pending receipt of revised terms of reference for the Investments Committee that strengthen the Committee's relative independence and enhance the effectiveness of its advisory role.

D. United Nations Joint Staff Pension Board and its committees

23. Under the bifurcated structure of the Fund, the Pension Board's authority concerning the Fund's investments, as defined in article 19 of the Fund's regulations, is: (a) to provide observations and suggestions from time to time on the investment policy; and (b) to examine the detailed accounts of all investments and other transactions relating to the Fund. In practice, it has become customary for the Representative and the Investments Committee to attend the meetings of the Pension Board, present the investment strategy and investment performance, and answer questions. At the annual meeting of the Board in 2019, the former Representative presented the results of the asset-liability management study of 2019, the new strategic asset allocation and the updated investment policy statement, which the Board discussed and endorsed.

24. The Pension Board also reviews the budget proposals pertaining to the Office of Investment Management. The Board's Audit Committee, which was established in 2007, assists in fulfilling its overall oversight responsibility for the Fund. In 2013, the Board established an Assets and Liabilities Monitoring Committee to monitor the Fund's long-term sustainability. In 2019, this Committee was renamed as the Fund Solvency and Assets and Liabilities Monitoring Committee, whose role, as decided by the General Assembly in its resolution 74/263, would pertain solely to asset-liability matters. The Committee of Actuaries, which advises the Board on actuarial matters, meets regularly with the Office of Investment Management and the Investments Committee to discuss the inputs to and results of the asset-liability management studies.

III. Office of Investment Management

A. Organizational structure and reporting lines

1. Organizational structure and roles of senior staff

25. Despite the significant growth of the Fund's assets, the conversion of the post of Representative from a part-time to a full-time post and the renaming of the organizational entity that is now known as the Office of Investment Management, and although some proposals for change were discussed in 2013 in conjunction with the proposal to establish a full-time Representative, the organizational structure for the Fund's investments has largely remained unchanged. Under the approved organizational structure for the 2012–2013 biennium (see A/68/303, annex II), the heads of the Investment Section (D-1), the Risk and Compliance Section (D-1) and the Operations Section (P-5) all reported to the Director of the Investment Management Division (D-2). When proposing the establishment of a full-time Representative in the Fund's budget for the 2014–2015 biennium, the Secretary-General also proposed that: (a) the existing Director (D-2) be redeployed to serve as the Chief Investment Officer and head the Fund's investment operations; (b) a new post of Chief Operating Officer (D-1) be established and report directly to the Representative; and (c) the Deputy Director for Risk and Compliance (D-1), as the Chief Risk Officer, report directly to the Representative. The proposed organizational structure, with the Chief Investment Officer (D-2), the Chief Operating Officer (D-1)

and the Chief Risk Officer (D-1) all reporting to the Representative, was to reflect the "most efficient structure providing a clean decision-making process while ensuring segregation of duties, leadership and overall management" (A/68/805, para. 18).

26. The Advisory Committee on Administrative and Budgetary Questions advised against the redeployment of the post of Director (D-2) to serve as the Chief Investment Officer, recommending that "the General Assembly request that the functions of the post of Chief Investment Officer be rejustified in the context of the review of the governance arrangements and management structure of the Fund, and that any other modifications to the organizational structure also be reflected in the proposed budget for the biennium 2016–2017" (A/68/7/Add.3, para. 36). The "review of the governance arrangements and management structure of the Fund" referred to by the Advisory Committee pertained to its other recommendation, in the same report, that such a review be conducted to "take into consideration the possibility of establishing a single position of leadership for the Fund, guiding both its administrative and investment management components" (ibid., para. 33). This recommendation, if implemented, would have altered the bifurcated structure of the Fund by merging pension administration and investment management into one single leadership position, which was evidently not accepted by the General Assembly in view of the Fund's bifurcated structure that was established by the Assembly in its resolution 248 (III) of December 1948. Accordingly, the Assembly decided, in paragraph 12 of its resolution 68/247, "to maintain the current structure of the Fund" (i.e. the bifurcated structure). Consequently, the "review of governance arrangements and management structure of the Fund" that was recommended by the Advisory Committee did not take place. Nevertheless, the Representative could have pursued the rejustification of the redeployment of the post of Director (D-2) to serve as the Chief Investment Officer in the budget for 2016–2017 or any other future budgets, but this was not done. The first full-time Representative hired a new Director (D-2) in June 2016, a Deputy Director for Operations (D-1) in March 2017 and a Deputy Director for Risk and Compliance (D-1) in November 2017. All the D-1 posts reported to the Director (D-2), who in turn reported to the Representative. This structure resulted in an overlap of the functions of the Representative and the Director, with the Representative exercising both executive and oversight responsibility for all the investment management functions that were placed under the Director.

27. During the audit, the acting Representative provided to OIOS an interim organization chart, which showed that the Deputy Director for Risk and Compliance and the Deputy Director for Operations would report directly to the Representative. However, to give full effect to this revised chart, the roles and responsibilities of the various incumbents would need to be appropriately redefined, in particular the roles of the Representative and the Director. As explained in section II of the present report, the Representative should focus on reporting to and coordinating with governing organs and stakeholders, setting high-level policy and investment strategy, and overseeing the implementation of the investment strategy by the Chief Investment Officer. Accordingly, the role of Chief Investment Officer should be entrusted to the Director. In the light of recommendation 1 and the interim organization chart introduced by the acting Representative, which should strengthen the checks and balances by having a direct reporting line from the Risk and Compliance Section to the Representative, OIOS does not make an additional recommendation on the organizational structure of the Office of Investment Management.

2. Role and independence of the Risk and Compliance Section

(a) Functions of the risk and compliance teams

28. The Risk and Compliance Section within the Office of Investment Management comprises the risk team and the compliance team. The risk team is responsible for

monitoring and overseeing the implementation of the Office's risk management policies and practices to ensure the consistent performance of the Fund over time. The team has overall responsibility for measuring, monitoring and reporting on risks across asset classes. It uses a risk budgeting approach to measure and identify the significant risk contributors to support the optimal allocation of risk based on risk-adjusted returns.

29. The compliance team is responsible for identifying, assessing, monitoring and reporting on compliance risks in matters relating to the Office's investment activities and the personal conduct of staff members. The compliance team is also responsible for ensuring that the Office's staff adhere to high standards of conduct. The Risk Committee was established in December 2017 under the first full-time Representative.

(b) Need for adequate independence to ensure the Section's effectiveness

30. In order to perform its functions effectively and without interference, the Risk and Compliance Section should be given adequate independence and authority, with direct access to the entity's senior management or the board. It is a good practice in the industry to provide the Chief Risk Officer and the Chief Compliance Officer direct access to the Board of Directors. However, in the Office of Investment Management, the Deputy Director for Risk and Compliance reported to the Director, as did the other three Deputy Directors responsible for investment management and operations. Although the Deputy Director for Risk and Compliance has access to the Representative through the Risk Committee, which is chaired by the Representative and serviced by the Risk and Compliance Section, the incumbent's functional independence was limited because the Section was placed under the authority of the Director. As noted above, the acting Representative has introduced an interim organizational structure in May 2020 to address this issue.

31. The functional independence of the Risk and Compliance Section was further compromised when the Representative exercised a role similar to that of Chief Investment Officer by actively involving himself in day-to-day investment decision-making and seeking the views of the risk team on specific investment proposals, on which the Representative's position was already clearly visible, including proposals that were sourced by the Representative himself and proposals put forth by others, towards which the Representative was not favourably inclined. During the past few years, the control environment in the Office of Investment Management, which is described below, was such that staff in general were reluctant to express dissenting views to the Representative. The independence of the Risk and Compliance Section needs to be strengthened by establishing a direct reporting line from it to the Representative, together with making changes to the Representative's terms of reference and delegation of authority, as explained above.

32. As at 1 March 2020, the risk team, which is under the supervision of the Deputy Director for Risk and Compliance, had an authorized strength of 10 posts, comprising 8 in the Professional category (1 P-5, 4 P-4 and 3 P-3) and 2 in the General Service category (1 G-6 and 1 G-7). Of those, 6 posts (1 P-5, 2 P-4 and 3 P-3 posts) had been approved for 2020 and were vacant. The staff occupying the remaining two P-4 posts had no role in the risk team – one was deployed elsewhere and the other was on extended leave. Consequently, the risk team was operating with one P-4 post and two P-3 posts, which were all filled on a temporary basis by using general temporary assistance funds. Those staff members were responsible for critical tasks, including performing risk analysis, reporting on investment performance, establishing procedures, endorsing investment proposals and representing the Risk and Compliance Section in the asset-liability management study, which was entrusted to an external consultant.

33. The independence and effectiveness of the risk team, which were already inadequate given the team's position in the organizational structure of the Office of

Investment Management, were therefore further weakened, because temporary staff cannot reasonably be expected to challenge the instructions or views of senior management. The Office needs to reinforce the capacity of the risk team by appointing its staff on a regular rather than a temporary basis.

(c) Capacity of the compliance team

34. The compliance team was established during the 2008–2009 biennium, when a new post of Compliance Officer (P-4) was created. Subsequently, in the budget for the 2014–2015 biennium, an additional post at the P-3 level was authorized, but the post was not filled until May 2018. In the period from October 2009 to May 2018, the functions of the compliance team were performed by a Compliance Officer (P-4), a Risk Assistant (G-7), whose post had been originally approved for the risk team, and a Compliance Assistant (G-7), who had joined the team in April 2015.

35. After the Compliance Officer (P-4) separated in April 2017, the functions of the compliance team were performed by two staff members at the G-7 level for a year, until a post of Compliance Officer (P-3) was finally filled in May 2018. However, one or both of the G-7 staff members were absent for most of 2019, and both of them eventually separated, one in November 2019 and the other in February 2020. During their absence, staff members from other sections temporarily assisted the team. Against the authorized strength of three posts (1 P-4, 1 P-3 and 1 G-7), the compliance team consisted of the Compliance Officer (P-3) and a Compliance Assistant (G-6), who had been appointed on a temporary basis at the time of the present audit.

36. In June 2018, the Representative cancelled the recruitment of the Compliance Officer (P-4). The post has since been redeployed to the Office of the Representative and is occupied by the Representative's Special Assistant on a temporary basis. This redeployment was not disclosed in the subsequent budgets. Similarly, in March 2020, the post of Compliance Assistant (G-7) was redeployed to support the newly created human resources function.

37. OIOS is of view that these redeployments have considerably diminished the capacity of the compliance team. If the Office of Investment Management considers that the diminished capacity is adequate to perform the compliance functions effectively, the posts of Special Assistant (P-4) and Administrative Assistant (G-7) should be appropriately justified and included in the budget for approval by the General Assembly. If not, the posts should be returned to the compliance team and used for the purpose for which they were authorized by the Assembly.

Recommendation 3

The Representative should strengthen the operational independence and effectiveness of the Risk and Compliance Section by filling the authorized posts on a regular basis through a competitive recruitment process and deploying the posts for the purposes for which they were authorized.

Comments of the Executive Office of the Secretary-General. The Executive Office of the Secretary-General accepted recommendation 3 and stated that the Secretary-General had endorsed, in May 2020, a new organizational structure, whereby the Risk and Compliance Section will report directly to the Representative to strengthen its operational independence and effectiveness. In parallel, all the relevant posts and positions have been assigned to the Service, the hiring processes are under way, and it is estimated that all the posts and positions will be filled by October 2020 and all the staff will be on-board no later than 31 December 2020.

Comments of OIOS. Recommendation 3 remains open pending receipt of evidence that the authorized posts for the Risk and Compliance Section have been filled through a competitive process and that the posts have been deployed for the purposes for which they were authorized.

3. Functions of the Executive Office

38. Until June 2015, the Executive Office of the Fund provided administrative services to both entities of the Fund (i.e. the erstwhile Fund secretariat, which has since been re-established as the Pension Administration, and the Office of Investment Management). The functions of the Executive Office included the provision of human resources services, such as recruitment, management of staff contracts and staff entitlements and hiring of consultants, and other services, including budget performance reporting and facilities management.

39. In its resolution 73/274, the General Assembly decided to reconstitute the Executive Office of the Fund so that it is directly responsible for the provision of administrative services to both entities of the Fund. At the time of the audit, the Executive Office had yet to be reconstituted. In its resolution 74/263, the Assembly requested the Fund and the Secretary-General to find appropriate solutions in 2020 to resolve the situation of the P-4 and P-5 posts in the Executive Office, which had been loaned to the Secretariat since June 2015. At the time of the audit, the situation had yet to be resolved. In the meantime, in January 2020, the Office of Investment Management established its own human resources function by appointing an Administrative Officer (P-4) on a temporary basis and an Administrative Assistant (G-6) on a regular basis. These arrangements were established without appropriate review and approval by the General Assembly. Actions to implement the resolutions of the Assembly with regard to the Executive Office were awaited.

B. Internal committees

1. Overview

40. In 2017 and 2018, the Representative established seven internal committees in the Office of Investment Management to coordinate and formalize decision-making in investment management and provide a structure for the decision-making process. Of those committees, the three key committees relating to investment management, and the purpose for which they were set up, are shown in table 1.

Table 1
Key internal committees in the Office of Investment Management

Name of committee	*Chair*	*Purpose*	*Number of members*	*Formed in*	*Frequency of meetings*
Internal Investment Committee	Representative	Assist and advise the Representative on investment strategy and asset allocation	5	February 2018	Monthly
Private Markets Committee	Representative	Assist the Representative in exercising his oversight and management role over investments in private markets	7	June 2018	Quarterly
Risk Committee	Representative	Assist and advise the Representative in exercising his oversight over risk management issues and controls	5	December 2017	Quarterly

2. Issues relating to the functioning of the key internal committees

41. On the basis of a review of the minutes of the meetings of the key internal committees, interviews with responsible staff and the observation of several meetings during the audit period, OIOS noted that the establishment of the internal committees had provided the structure and method necessary to promote wider consultation by the Representative with managers and staff of the Office of Investment Management. In practice, however, the internal committees did not necessarily facilitate free and frank discussion among the attendees, as explained below. Furthermore, the principle of functional segregation between investment and risk management was compromised given that the Representative was the Chair of the Internal Investment Committee, Private Markets Committee and the Risk Committee.

(a) Ambiguity in the role of committee members

42. According to the terms of reference for the committees, each committee has a certain number of members, but permanent invitees and other participants may also be invited by the Representative (as their Chair). In the Internal Investment Committee, for example, there were five members who were senior staff, but there were also 17 to 20 permanent invitees and several other staff members invited by the Representative, sometimes bringing the total number of meeting participants up to 30. All the participants had the same opportunity to express their opinion, and the Chair appeared to seek a majority view among all participants for him to make final decisions. While this practice appeared to promote group decision-making, it diluted the role of the members, whose views were given as much weight as any other invitee of the Representative. The presence of up to 25 non-members in the Committee’s meetings also appeared to enable the presence of the larger group of invitees to counterweigh the views of the five members.

(b) Sole authority vested in and exercised by the Representative

43. Given that the revised delegation of authority issued in January 2013 explicitly stated that the authority delegated to the Representative was personal and may not be further delegated, the Representative became the sole individual entrusted with exercising the delegated authority. As a result, the role of the internal committees was limited. Such an arrangement is unique compared with the industry standard, whereby decision-making authority is vested in a committee or board instead of a single individual. The authority vested in the Chair of the Office’s three internal committees therefore significantly exceeded the authority normally exercised by a committee chair, which is to facilitate dialogue, promote consensus among members and keep a transparent record of the committee’s discussions, including supporting and dissenting views.

44. In 2018 and 2019, the Representative introduced at least seven investment proposals to the committees for discussion and decision. As a matter of principle, proposals introduced by the Representative must undergo the same extent of due diligence and scrutiny by the committees as proposals introduced by others, but this was not always the case. The Chair was in a position to determine the extent of scrutiny by the committees of proposals, which were sometimes viewed by members as either inadequate or excessive.

45. For instance, members who had expertise in private markets reviewed some of the investment funds that were introduced by the Representative (as the Chair). After they raised legitimate concerns about those proposals, they faced considerable difficulty in securing the committee’s clearance for the proposals that they had introduced, which were subjected to lengthy and granular scrutiny by the Chair. Although the Chair’s concerns were addressed by the members, the decision on their

proposals was put off for three to six months. At one point, the staff were requested to assess the reputational risk associated with their proposals. When the assessment showed that the reputational risk was low, the Chair disregarded it, saying that the tool used for the assessment was not reliable. However, the documentation reviewed by OIOS showed that the Chair had suggested the use of the same tool for assessing other similar proposals.

46. At a meeting of the Internal Investment Committee on 6 March 2020, which was observed by OIOS, some investment officers expressed concern about the Representative's decision and approach with regard to rebalancing the Fund's portfolio. The Representative blocked further discussion on this matter by insisting that it was a risk management decision that should be discussed only by the Risk Committee, despite the legitimacy of the concern expressed.

47. These shortcomings compromised the effectiveness of the internal committees and weakened their role in investment management and oversight.

Recommendation 4

The Representative should enhance the effectiveness of the internal committees by: (a) clarifying the roles and authority of committee members and non-members; (b) promoting professionalism and transparency in the consideration of matters placed before them; and (c) fostering a culture of healthy debate during the committees' meetings, including tolerance of dissenting views and constructive criticism.

Comments of the Executive Office of the Secretary-General. The Executive Office of the Secretary-General accepted recommendation 4 and stated that an internal task force had been created in May 2020 to review the terms of reference, composition and working methods of the internal committees. In principle, the Chair of each committee will be occupied by the Director of the Office of Investment Management and the Chiefs of the Risk and Compliance Section and the Operations and Information Systems Section.

Comments of OIOS. Recommendation 4 remains open pending receipt of updated terms of reference for the internal committees that clarify the roles and authority of committee members and non-members, and pending actions by the Representative to enhance the quality of deliberations in the committees' meetings.

IV. Strategy setting and implementation

A. Asset-liability management study and strategic asset allocation

48. The long-term investment strategy of a pension fund is usually set through an asset-liability management study, which is conducted to project the long-term solvency of the fund and recommend the long-term strategic asset allocation, namely, the proportion of the fund's assets that should be invested in various asset classes, such as stocks, bonds and real estate. The Fund has been conducting such studies every four years since 2007, with the involvement of both entities, namely, the Pension Administration (formerly known as the Fund secretariat) and the Office of Investment Management (formerly known as the Investment Management Division). In November 2018, the Fund initiated its 2019 study and formed a working group to manage the process. The Office of Investment Management also engaged a specialist consultant for this purpose.

1. Composition of the working group for the 2019 study

49. The working group consisted of the Director, the Deputy Director for Equities, the Deputy Director for Fixed Income, the Special Assistant to the Representative, a Risk Officer from the Risk and Compliance Section and an actuarial expert from the Pension Administration. Unlike in the 2011 and 2015 studies, in which the Deputy Director for Risk and Compliance played a pivotal role, the Risk and Compliance Section was represented only by a Risk Officer (P-3) holding a temporary appointment. The Office of Investment Management stated that the Deputy Director for Risk and Compliance was not appointed to the working group owing to other priorities. OIOS is of the view that the study was much too important for the Deputy Director for Risk and Compliance to be excluded from active participation in it.

2. Processes relating to the 2019 study

50. Since the strategic asset allocation embodies the long-term investment strategy of the Fund, OIOS reviewed the processes of the 2019 study through which the Office of Investment Management determined the Fund's new strategic asset allocation. Through the review, OIOS identified certain improvements over past studies and areas for further improvement.

51. The results of asset-liability management studies are determined to a large extent by the capital market assumptions, namely, the expected returns, volatility (a risk indicator often expressed in standard deviations of the expected returns) and correlation[2] estimates that represent the long-term risk and return forecasts for various asset classes. Whereas the Fund's previous studies relied on the capital market assumptions of consultants, the Office of Investment Management took the initiative in setting the assumptions for the 2019 study. The working group used the expected returns of the consultant as the baseline for the main asset classes, including developed and emerging market public equities, fixed income, real estate, private equity and infrastructure, and sought the views of the Investments Committee and the two committees of the Pension Board (i.e. the Fund Solvency and Assets and Liabilities Monitoring Committee and the Committee of Actuaries). On the basis of the feedback, the working group adjusted the expected returns, which appeared to be moderate and justified. The working group also collected assumptions from five well-established financial institutions and used them as a reference to ensure the reasonableness of the final assumptions for the six major asset classes. This approach was acknowledged by the committees of the Pension Board. The Office also discussed the selected strategic asset allocation with the Investments Committee, the committees of the Board and ultimately the Board itself, and obtained their endorsement of it.

52. The review process was less broad and rigorous for: (a) capital market assumptions for the sub-asset classes of fixed income and real assets (except infrastructure); and (b) modelling restrictions (i.e. the minimum and maximum allocations set for each asset class for the asset-liability management modelling). The working group could have subjected those parameters and the determination of the final strategic asset allocation based on the asset-liability management optimization results to the same review and consultation process. For instance, the elimination of corporate bonds from the benchmark for fixed income could have been discussed in the internal committees, which would have further enhanced the accuracy of the study, the transparency of the process and the buy-in of stakeholders in the results. The Office needs to adopt the industry's best practice and formulate an asset-liability management policy to guide and regulate future studies by institutionalizing good practices and lessons learned from the past.

[2] The degree to which the market prices of different assets move together.

53. The asset-liability management study and the resultant strategic asset allocation were significantly driven by the inputs, which in turn were largely based on historical data and management's judgment. They may be rendered invalid by major market developments, especially economic and financial crises, which would require appropriate adjustment of the investment strategy. For instance, in the 2011 study, a higher allocation was recommended to inflation-linked bonds and commodities because a higher rate of inflation was assumed. Such asset classes performed poorly afterwards because the high inflation did not materialize. As a result, the Fund had lost more than 50 per cent of its original $200 million investment in commodities by 2019. The loss would have been higher if the allocation target of 5 per cent had been fully achieved. Similarly, the average 10-year return of the Fund's emerging markets equities portfolio as at 31 December 2019 was only 3.8 per cent, which was significantly lower than the return assumptions used in the asset-liability management studies.

54. Considering the potential long-term and widespread economic impact of the coronavirus disease (COVID-19) pandemic and given that the assumptions used in the 2019 study were based on data from 2018 or earlier, OIOS is of the view that it would be prudent for the Fund to conduct an interim review of the inputs to and results of the study. In the past, the Fund had raised the possibility of conducting a mini-study every two years to complement the four-year comprehensive studies.

3. Implementation road map and resource plan

55. Upon completion of past asset-liability management studies and the adoption of new strategic asset allocations, the Office of Investment Management had not reached the allocation targets for private market investments. For instance, in the 2007 study, it was recommended that 4 per cent should be allocated to private equity and 10 per cent to real estate. In the 2015 strategic asset allocation, the targets were updated to 5 per cent and 9 per cent, respectively. As at 31 December 2019, however, private equity and real estate accounted for only 4.9 per cent and 7 per cent of the Fund's portfolio, well below the historical target allocations and the new targets of 9 and 12 per cent set in 2019. The failure to meet the targets was attributed to resource constraints, since private market investments require more resources for performing intensive due diligence, close monitoring, risk management and operational support than public market investments. As the Fund kept growing, private market investments needed to grow at an accelerated pace to reach higher allocation ratios.

56. Insufficient capacity not only led to slow implementation of the strategic targets but likely contributed to underperformance, given that new asset classes, such as infrastructure and commodities, were initially assigned to the real estate team, which was already understaffed. The annualized return of the infrastructure and commodities portfolios since their inception in 2011 and 2010, respectively, was 0.8 per cent and -5.2 per cent as at 31 December 2019. In 2018, the Office of Investment Management concluded that these small, outsourced portfolios became "orphan portfolios" and did not receive enough attention from their investment managers. Similarly, the 10-year average return of the Fund's private equity portfolio as at 31 December 2019 was 6.2 per cent, which was significantly lower than the return assumptions used in the asset-liability management studies.

57. The Office has adopted a glide-path approach to implement the 2019 strategic asset allocation over a period of four years, depending on market conditions and internal capabilities. Before finalizing the strategic asset allocation, the Office engaged a consulting company to conduct a benchmarking study of staffing, which took a top-down approach and identified a gap of 25 to 40 full-time staff relative to the Fund's peer group. On the basis of this study, the Office requested additional resources for 2020. In its resolution 74/263, the General Assembly approved 25 posts,

most of which were for strengthening the information and communications technology and risk functions, with only one new P-4 post for the private equity team.

58. The consulting company also found that the Fund's overall investment cost per dollar of assets managed (27 basis points, or 0.27 per cent) in 2017 was significantly below the peer benchmark of 44 basis points owing to the higher allocation to (and lower cost of) internally managed public equities. However, the Office of Investment Management paid higher investment management fees to external managers for private market investments because it relied on indirect investment in external funds instead of direct investment or co-investment. The higher fees to external managers offset the higher gross returns achieved for real estate investments and further reduced the returns of private equity below the peer group.

59. The Office needs to conduct a bottom-up workforce planning exercise, as recommended by the consulting company, to identify the talent required to implement the investment strategy, and develop a plan to obtain the resources required to achieve its targets in private markets and generate net returns in line with expectations.

Recommendation 5

The Representative should: (a) develop an asset-liability management policy by incorporating good practices and lessons learned from previous asset-liability management studies to guide future studies; (b) conduct a bottom-up workforce planning exercise to determine capacity gaps and develop a strategy to fill them in order to implement the investment strategy in a cost-effective manner; and (c) review the validity of the inputs used for the 2019 asset-liability management study and strategic asset allocation, taking into consideration changes in the economic and market environment and the results of implementing the current strategic asset allocation, in order to make appropriate adjustments if necessary.

Comments of the Executive Office of the Secretary-General. The Executive Office of the Secretary-General accepted recommendation 5 and stated that an internal task force had been created in May 2020 to evaluate the results of the asset-liability management study, the investment policy statement and the portfolio benchmarks; and the need to adapt them to the new economic and market context. On the basis of the work of the task force and the OIOS recommendation, an asset-liability management policy will be developed. In addition, an internal bottom-up workforce exercise will be performed to determine the capacity gaps and develop a strategy that will match the needs of the Office of Investment Management in the coming years.

Comments of OIOS. Recommendation 5 remains open pending receipt of: (a) an asset-liability management policy that provides guidance for future asset-liability management studies; (b) the results of a bottom-up workforce planning exercise to determine capacity gaps and a strategy to address them; and (c) evidence that the Office of Investment Management has reviewed the validity of the inputs used for the 2019 asset-liability management study and strategic asset allocation in order to make appropriate adjustments if necessary.

B. Policy benchmarks

60. Policy benchmarks are the set of indices against which the performance of the Fund's portfolio is measured. They provide a point of reference for how the Fund's management is adding value to investment performance. According to the investment procedures of the Office of Investment Management, benchmark selection is a

comprehensive process, and changes to benchmarks are not made unless the current benchmarks deviate significantly from the investment objectives assessed by various studies, including the benchmark study and the asset-liability management study. Table 2 shows the policy benchmarks that were approved by the investment policy statement.

Table 2
Policy benchmarks as at 30 April 2020

Asset class	*Policy benchmark*	*Used since*
Global public equities	MSCI World Customized (80%) and MSCI Emerging Markets Customized (20%)	January 2020
Private equity	Benchmark for global public equities + 2%	January 2020
Real estate	National Council of Real Estate Investment Fiduciaries Open End Diversified Core Equity + 1%	April 2007
Real assets	United States consumer price index + 4%	September 2014
Global fixed income	Bloomberg Barclays blended – United States securitized (50%); United States Treasury (35%); and emerging market local currency government (15%)	October 2019
Cash and equivalents	Bloomberg Barclays 1–3 Month United States Treasury Bill Index	October 2018

Abbreviation: MSCI, Morgan Stanley Capital International.

1. Benchmarks for public equities and private equity

61. The benchmark for public equities is composed of 80 per cent Morgan Stanley Capital International (MSCI) World Customized and 20 per cent MSCI Emerging Markets Customized, both of which are customized to exclude the securities prohibited by the Fund’s investment policy statement, such as tobacco and armaments securities.

2. Benchmarks for real estate and real assets

62. The Fund has used the National Council of Real Estate Investment Fiduciaries Open End Diversified Core Equity plus a 1 per cent hurdle rate for the real estate portfolio and the United States consumer price index plus a 4 per cent hurdle rate for the real assets portfolio. These benchmarks were selected owing to the lack of an appropriate benchmark in the industry that can be used as a reference for setting the investment strategy for these asset classes.

3. Benchmark for cash and equivalents

63. The benchmark for cash and equivalents is composed of the United States short-term treasury notes and bonds. The approach to cash has been driven by the views of the Fund’s leadership over the years. In August 2015, the first full-time Representative adopted a new benchmark (a blend of United States and Euro treasury bills) adapted to the Fund’s actual currency needs and holdings. In October 2018, the Representative adopted the current benchmark to reduce the currency exposures of the previous benchmark.

4. Benchmark for global fixed income

64. The Office of Investment Management uses a blended benchmark composed of three different indices for the fixed-income portfolio. The original purpose of changing the benchmark for fixed income was to reduce the currency exposures in the light of the recommendations made by the Board of Auditors on unrealized currency revaluation losses in 2015 and 2016. OIOS noted the following issues in the development of the new benchmark for fixed income.

(a) Development of the new benchmark for fixed income

65. In October 2018, the Representative made an internal announcement that the benchmark for fixed income would be changed over the following six months, with the target of implementing it by 31 March 2019. Following the announcement, in November 2018, the Director of the Office and the Deputy Director for Fixed Income initiated a project with an external entity ("Entity A") to identify the new benchmark for fixed income. Although the asset-liability management study commenced in the same month and both the Director and the Deputy Director for Fixed Income were in the working group for the study, the Office of Investment Management decided not to wait for the outcome of the study to identify a suitable benchmark for fixed income. In fact, the scope of work for the study included "providing analysis and recommendations on appropriate benchmarks by asset class". There was no apparent need to use an external entity when a formal study was about to begin with the full capability to carry out the required analysis.

66. In January 2019, before the new benchmark could be discussed in the internal and external committees, the Office of Investment Management initiated a recruitment process to hire an investment officer to manage mortgage-backed securities in anticipation of a higher allocation to the asset class with the new benchmark. The Deputy Director for Fixed Income presented the new benchmark to the Investments Committee and the Risk Committee in February 2019. In a subsequent meeting of the Investments Committee in May 2019, the Representative indicated that the Office would transition to a new benchmark for fixed income once the asset-liability management study was concluded. However, in April 2019, before the meeting of the Investments Committee, the Representative had already made the decision to begin the transition on 1 May 2019, which was subsequently postponed to 1 July 2019 and eventually implemented on 1 October 2019.

(b) Independence of Entity A

67. The independence of the parties involved in benchmark selection is a precondition for an objective study. Entity A, which manages the $1.9-billion exchange-traded fund for the Fund, was commissioned to carry out the project free of charge without any contractual agreement. During the benchmark study, Entity A had submitted a proposal for an ongoing procurement exercise. At the time of the present audit, the procurement was complete, and Entity A had been selected. Receiving services free of charge from Entity A raises questions about the independence and objectivity of the benchmark optimization project.

(c) Approach to optimizing the benchmark

68. At the initial meeting with Entity A in November 2018, the Director determined the market sectors to be considered by Entity A in constructing the optimized benchmark, which were similar to those of the Bloomberg Barclays United States Aggregate Bond Index. The United States Aggregate was used as a starting point for optimizing the benchmark and also as the proxy index in the asset-liability management study. The Office of Investment Management therefore presented the

better risk return profile of the optimized benchmark relative to the United States Aggregate to highlight its superiority. Despite a slightly better risk return profile, the optimized benchmark showed lower stability and tripled the currency exposure compared with the United States Aggregate. The Office stated that the option of using the United States Aggregate had been ruled out from the beginning owing to the lack of internal capacity to manage corporate bonds, which account for about 23 per cent of the United States Aggregate index. Although the asset-liability management optimization results suggested allocating 21 per cent to United States corporate bonds, the Office maintained the predefined benchmark for fixed income on the grounds that it did not have the internal capacity required to manage United States corporate bonds. However, shortly after the new benchmark was implemented, the Office identified the need for additional resources for the fixed-income team to implement the new benchmark, which contradicts the argument that the benchmark was optimized on the basis of available resources.

69. Given that the Office of Investment Management has historically taken a deliberate and cautious approach when making changes to its benchmarks, the manner in which it adopted the new benchmark raises concern over the benchmark's legitimacy and appropriateness.

70. OIOS is of view that the appropriateness of the new benchmark for fixed income needs to be reconfirmed through a review of the continued relevance of the inputs used for the 2019 asset-liability management study, as recommended in recommendation 5 (c). It is also important for the Office to clarify in its investment procedures the steps that should be followed when changing the policy benchmarks, including discussion within the internal committees and among the experts in the Investments Committee.

Recommendation 6

The Representative should: (a) reassess the appropriateness of the new benchmark for fixed income; and (b) clarify in the investment procedures the steps to be followed when changing the policy benchmarks to ensure that due process and objectivity are preserved.

Comments of the Executive Office of the Secretary-General. The Executive Office of the Secretary-General accepted recommendation 6 and stated that an internal task force had been created in May 2020 to evaluate the results of the asset-liability management study, the investment policy statement and the portfolio benchmarks and to evaluate the need to adapt them to the new economic and market context. As a result, a clear process to define portfolio benchmarks will be included in the investment procedures and a deep review of the benchmarks will be performed.

Comments of OIOS. Recommendation 6 remains open pending receipt of: (a) evidence that the appropriateness of the new benchmark for fixed income has been assessed; and (b) revised investment procedures that clarify the steps to be followed when changing the policy benchmarks.

C. Investment policy statement

71. The investment policy statement sets forth the parameters that guide the Representative and staff of the Office of Investment Management in managing the investment of the Fund's assets. The investment policy statement was updated in June 2008, March 2014, June 2016 and, most recently, August 2019. Pursuant to the terms of reference, the Representative is responsible for the overall investment policy of the

Fund. The findings of the OIOS review of the process for updating the investment policies are described below.

1. Changes to the investment policy statement

72. The investment policy statement incorporates from time to time changes based on the asset-liability management study and other formal studies relating to investments. While such changes are made in consultation with stakeholders, including the Investments Committee and the Pension Board, not all changes are subject to the same level of scrutiny by stakeholders, who must rely on the judgment of the Representative as the fiduciary for investments, as well as the oversight that the Representative is expected to exercise.

73. In March 2019, for example, the Office of Investment Management discussed its positions in non-investment grade bonds (i.e. B and BB ratings) in the amount of about $9 million held since April 2001 through the emerging market debt fund, which was managed by an external asset management company. Given that the investment policy statement has always required bonds to be of investment quality (i.e. BBB- and above), holding non-investment grade bonds was a violation of the policy. After weighing the risks and benefits of holding the prohibited bonds, the Representative decided to maintain the status quo, but removed the section from the investment policy statement that specified the investable and non-investable credit grades. While it is appropriate for the Representative to make a reasoned exception to the investment policy statement in specific cases where justified, the deletion of the entire section that required the Fund to invest in only investment grade bonds exposed the Fund to the risk that non-investment grade bonds may be considered to be acceptable as a matter of policy.

2. Disclosure of allocations for sub-asset classes

74. The new strategic asset allocation as disclosed in the investment policy statement was incomplete. While the statement specified the allocations and benchmarks for the top-level asset classes, allocations for sub-asset classes were not specified, including, for example, the 2 per cent allocations for infrastructure and private debt, as well as the 1 per cent allocations for absolute return strategies (hedge funds) and timberland. They were shown only in the list of eligible asset classes, without the corresponding allocation. Investments in private debt and hedge funds are more susceptible to controversy since they typically lack transparency. It is important that stakeholders be fully aware of the target allocations for such sub-asset classes.

Recommendation 7

The Representative should enhance transparency in the investment policy statement by reinstating the section concerning credit rating limits and fully disclosing the strategic asset allocation and benchmarks at the sub-asset class level.

Comments of the Executive Office of the Secretary-General. The Executive Office of the Secretary-General accepted recommendation 7 and stated that an internal task force had been created in May 2020 to evaluate the results of the asset-liability management study, the investment policy statement and the portfolio benchmarks and to evaluate the need to adapt them to the new economic and market context. As a result, additional disclosure in the investment policy statement will be included.

Comments of OIOS. Recommendation 7 remains open pending receipt of an investment policy statement that reinstates the section concerning credit rating limits and discloses the strategic asset allocation and benchmarks at the sub-asset class level.

D. Business continuity during the coronavirus disease (COVID-19) pandemic

75. The Office of Investment Management established a crisis management team and a Business Continuity and Disaster Recovery Working Group to oversee and manage its business continuity planning on an ongoing basis. The Office conducted nine business continuity tests in 2019. In response to the challenges arising from the COVID-19 pandemic, the Office conducted two tests in early 2020 (14 February and 5 March). Both tests were conducted successfully, and the existing information and communications technology network and infrastructure was found to be adequate to support the Office's operations. On 5 March, the Office executed 323 trades with a total volume of $744 million. Since 16 March, all staff members have been working from home in accordance with the instructions issued by the Secretary-General. The Office had identified critical staff and focal points to be contacted in the event of an emergency. Weekly reports were prepared indicating, inter alia, the number of trades executed and the utilization of the service desk. Issues were closely monitored in daily meetings of the crisis management team.

V. Performance management and accountability

A. Performance measurement and reporting

1. Investment performance reporting

76. To maintain the integrity of investment performance measurement and reporting, the Fund's portfolio performance is independently measured and reported by an external custodian (master record keeper). The Risk and Compliance Section of the Office of Investment Management verifies and analyses the data provided by the master record keeper to produce various investment performance reports. The internal controls over investment performance reporting, including segregation of duties between the portfolio managers, the Risk and Compliance Section and the master record keeper, are meant to ensure that investment officers do not control the reporting of their own performance.

2. Performance measurement and reporting of the Fund's portfolios

77. The primary objective of the Fund is to deliver a 3.5 per cent real rate of return (i.e. net of inflation) over a period of 15 years or longer. The Office of Investment Management therefore measures and reports the Fund's relative performance in real terms (i.e. nominal return adjusted for the United States consumer price index) on a quarterly basis against the target of 3.5 per cent for periods from 1 to 15 years.

78. In addition, the Fund has traditionally measured its investment performance in absolute and relative terms against the policy benchmarks for each individual portfolio and the Fund as a whole. While the Office of Investment Management uses the time-weighted return methodology to calculate returns at the Fund level, it uses the internal rate of return for certain private market investments because it is considered more appropriate to assess the performance of individual partnerships or funds. The Fund's comprehensive performance metrics are stipulated in the newly developed performance manual, which had yet to be formally issued at the time of the audit.

79. In measuring the portfolio performance of real estate investments, the lack of reliable data prior to 2006 had been an area of concern. This was caused primarily by inadequacies in the handover of records in 2006, when the Fund replaced the previous

master record keeper with the current one. In August 2018, the Office of Investment Management initiated a comprehensive review of the historical real estate investment data, and it was confirmed that the previously reported long-term returns were largely accurate.

80. The Fund also occasionally measures its performance against peer groups. A comprehensive benchmarking of the Fund's investments against peer groups was last performed in 2019 by an external consultant.

3. Accountability mechanisms

(a) Performance appraisal of the Representative

81. With the appointment of a full-time Representative in 2014, the Secretary-General established annual compacts with the Representative to hold the incumbent accountable for performance of the fiduciary duties relating to the Fund's investments. The compacts indicated, inter alia, the performance targets to be achieved by the Representative.

82. While the common long-term objective of achieving a 3.5 per cent real rate of return remained the same in the various compacts over the years, there was inconsistency in the period selected to measure the Representative's individual performance. The compact for 2016 indicated that the target for the Representative was to "achieve an annualized rate of return which meets or exceeds the policy benchmark and/or return target equal to a 3.5 per cent real rate of return over a 3- to 5-year period of time". Meanwhile, the compact for 2019 indicated that the performance measure was to "ensure that the investment return for the three-year period meets or exceeds the policy benchmark and the average investment return for the 15-year period ending 2019 continues to exceed the long-term objective of 3.5 per cent real" rate of return. Given that investment performance can vary significantly depending on the period selected for measurement, OIOS is of view that the periods selected for assessing the Representative's performance should be consistent and that the objectives should include relative and real investment returns for both the short and long terms. For ensuring accountability, it is also important to include the results achieved during periods corresponding to the tenure of the Representative.

Recommendation 8

The Secretary-General should review the annual compact with his Representative and strengthen accountability by ensuring that the periods selected for performance assessment are consistent and that the objectives include relative and real investment returns for both the short and long terms.

Comments of the Executive Office of the Secretary-General. The Executive Office of the Secretary-General accepted recommendation 8 and stated that the long-term performance objective of the Representative was to meet or exceed a 3.5 per cent real rate of return in United States dollar terms for a rolling period of 15 years. The Secretary-General will analyse possible short-term performance measurements that ensure that the short-term incentives and decisions of the Representative are aligned with the long-term goals of the Fund.

Comments of OIOS. Recommendation 8 remains open pending receipt of an annual compact for the Representative with consistent assessment periods and objectives that include relative and real investment returns for both the short and long terms.

(b) Limitations of the Fund's accountability mechanisms

83. The benchmarks used by the Office of Investment Management for private equity, real estate and real assets are limited in gauging the relative performance of the portfolios because they are not fully representative of the actual composition of the underlying portfolios. Owing to the nature of private markets, it is not feasible to construct a portfolio with sufficient diversity to represent the total market, which is an industry-wide issue. Despite these limitations, OIOS noted that an unreasonable emphasis was placed on the relative performance of the portfolio in evaluating the performance of staff responsible for private market investments.

84. Despite the performance evaluation mechanisms in place, it is still a challenge to establish clear accountability for investment performance. Unlike private financial institutions, in which good performance is rewarded with monetary compensation and poor performance may lead to termination, the Office of Investment Management does not have such tools to incentivize staff to perform well or face the consequences. The Office has to rely to a large extent on the competencies of its staff and their commitment to the Fund's cause. Previous attempts to establish a suitable incentive scheme for the Fund's investment staff were not successful, but it is an area that the Office could explore further.

B. Performance management of staff

85. In order to achieve the objectives of the Fund, the performance goals of the Representative should reflect the objectives to be achieved by the Office of Investment Management and be synchronized with the individual performance goals of staff. The investment policy statement includes the Fund's investment objective to meet or exceed a 3.5 per cent long-term real rate of return and to meet or exceed the return of the policy benchmark in the short term. However, these objectives were not fully incorporated into the performance goals of staff. For instance, the performance of the Director was not evaluated on the basis investment performance in the past three evaluation cycles. At the level of the Deputy Director and senior investment officers, portfolio performance was considered to varying degrees, but there was no consistency in terms of the periods or weight used to evaluate their individual performance.

86. To ensure that the Representative's performance goals as laid out in the compact with the Secretary-General are achieved, the performance goals of staff in the Office of Investment Management should be aligned with the goals set for the Representative. The OIOS review of the individual performance documents of investment staff showed that, during the performance cycles 2015/16, 2016/17 and 2017/18, there was no alignment between the performance goals of the Representative and those of staff. For the performance cycles 2018/19 and 2019/20, there was a lack of uniformity in the success criteria for some staff. Though senior management made an effort to standardize the performance evaluation for the 2019/20 performance cycle by identifying goals and providing the weights to be applied for each goal, these were not reflected in the performance documents. For example, a sample review of 15 performance documents showed that only two staff members assigned weights to the performance goals. This indicated a need for better communication and oversight to ensure that the performance evaluation process is standardized as much as possible to achieve fair and balanced evaluations of staff performance based on objective criteria, with a clear link between staff members' investment performance and their performance goals.

C. Performance management of external managers

87. The Office of Investment Management uses external managers to manage the small-cap and frontier markets portfolios, which accounted for about 4 per cent of the Fund's assets at the time of the audit. The external managers reported their investment performance on a monthly basis. Their overall performance was reviewed by the Office on a quarterly basis using performance criteria agreed upon at the time of their hiring. The Office maintained a watch list of those external managers with performance issues. Those on the watch list were subject to additional review. During the past five years, two external managers were terminated after they were placed on the watch list and their performance was reviewed by the Internal Investment Committee.

VI. Control environment

88. According to the internal control framework of the Committee of Sponsoring Organizations of the Treadway Commission, a control environment is the set of standards, processes and structures that provide the basis for internal control across an organization. The control environment is also the overall culture, tone and attitude of the organization. The Representative is ultimately responsible for the control environment in the Office of Investment Management through providing effective oversight and setting the tone for integrity and ethical values.

A. Transparency and accountability

89. Transparency is regarded as a key feature in good governance and a precondition for accountability. In 2011, the then Representative began the practice of uploading on the Fund's public website detailed information and reports that could be viewed by anybody at any time, including periodic reports (weekly, monthly and quarterly) on the Fund's investment performance, documents presented to the Investments Committee, risk and performance dashboards, benchmarking reports and investment performance reports provided by the master record keeper. However, in 2018, all these documents were removed from the Fund's website and replaced with broad summary information that was often several months old. For instance, after global markets were severely hit by the COVID-19 crisis in early 2020, which also had a significant impact on the Fund's portfolio, the website still showed broad investment results as at 30 September 2019. While there was widespread concern among the Fund's participants and beneficiaries about the financial health of the Fund and the potential impact on their pension benefits, the Office of Investment Management did not provide any update on the Fund's investments to suitably inform the stakeholders. The Office has added some more reports to its website since April 2020.

B. Managing conflict of interest situations

90. The Office of Investment Management has developed a code of ethics and standards of professional conduct that defines the fundamental core values and principles of ethics and integrity that its staff are expected to uphold. Under the code, staff of the Office, when faced with a conflict of interest situation, are required to make a full disclosure of all matters that could reasonably impair their independence or impartiality.

91. OIOS is of the view that the code needs to be improved by including more detailed procedures for disclosure and recusal when a situation of potential or

perceived conflict of interest arises. Such procedures should describe the types of situations in which staff are required to make a disclosure and recuse themselves from researching, reviewing and/or making decisions on investment proposals or cases involving the procurement of goods or services. The procedures should also clarify the level of participation that is permissible in the event that full recusal is not required owing to: (a) the occupational rank or role of the individual concerned; and/or (b) the nature of the potential or perceived conflict of interest. OIOS came across the following cases in which disclosure and/or recusal were not properly managed:

(a) During the consideration of an investment proposal that had been initiated by a senior manager in the Office of Investment Management, the senior manager recused himself from decision-making in the case owing to a potential or perceived conflict of interest involving him. However, the senior manager designated his subordinate to act on his behalf. OIOS is of the view that the action taken to mitigate the conflict situation in this case was inadequate because the designated individual still reported to the senior manager and remained subject to his authority;

(b) Another investment proposal was marketed directly to the same senior manager by a fund partner who referred to himself as the senior manager's "former colleague and friend for 20 years". The proposal was discussed on multiple occasions in the Private Markets Committee, in which the senior manager participated, without disclosure of the relationship with the partner or recusal from the review process;

(c) A project team overseen by another senior manager recommended an investment in an external investment management company in 2019. The senior manager had previously engaged in outside activity with two individuals who were members of the Board of Directors of the same investment management company, with one of them being the Board's Chair. Although the senior manager obtained the required permission for the outside activity, he did not recuse himself from the project preparation and review process for the proposed investment, including when the proposal was submitted, in May 2019, for consideration by the Internal Investment Committee, of which he was a member. The senior manager did not attend the meeting of the Committee in December 2019, which he described as a de facto recusal. However, the minutes of the meeting did not indicate that his absence was due to recusal.

92. Non-disclosure of potential or actual conflicts of interest and/or inadequate recusal from investment processes not only may undermine the Fund's ability to make sound investment decisions but could also potentially damage the Organization's reputation.

Recommendation 9

The Representative should develop and implement detailed disclosure and recusal procedures by providing examples of scenarios and explaining the steps that should be followed by staff to manage conflicts effectively and in the best interests of the Fund.

Comments of the Executive Office of the Secretary-General. The Executive Office of the Secretary-General accepted recommendation 9 and stated that the Representative would develop and implement detailed disclosure and recusal procedures by providing examples of scenarios and explaining the steps that should be followed by staff to manage conflicts effectively and in the best interests of the Fund. The Representative will also establish a new process whereby, at the beginning of each internal committee meeting, the members and invitees will have to disclose any conflict of interest or certify verbally that there is no conflict of interest, which will be included in the minutes.

Comments of OIOS. Recommendation 9 remains open pending receipt of evidence that disclosure and recusal procedures have been established and circulated to staff to enable the Office of Investment Management to manage potential conflict of interest situations effectively.

C. Culture and ethical values

93. During the audit, OIOS observed several meetings and sought the views of staff of the Office of Investment Management through interviews and questionnaires. The observation of the meetings and the feedback received from staff indicated divisiveness among staff and a culture that many staff described as “toxic”. While some staff showed unreserved support for the changes and investment proposals introduced by senior management, others strongly questioned and opposed certain changes and proposals. In addition to the perceived micromanagement by certain senior managers, the attitude and approach adopted by them in response to dissenting views and criticism were perceived as intolerant and even retaliatory. This situation caused fear among some staff and led to distrust and infighting in the Office, with multiple complaints and counter-complaints being filed. Such conditions pointed to the lack of an appropriate tone at the top with regard to the highest ethical standards of behaviour that are expected of officials entrusted with fiduciary responsibilities. These issues need to be addressed effectively and expeditiously to reinforce the focus of staff and senior managers of the Office on serving the best interests of the Fund, its participants and beneficiaries.

94. The purpose of the Performance Management and Development System is to promote a culture of high performance and personal development by recognizing successful performance and addressing underperformance in a fair and equitable manner. OIOS came across instances in which the performance evaluation may have been used inappropriately against staff, including: (a) using audit findings against a staff member even though the findings pertained to a period prior to the staff member’s appointment date; (b) using the expression by a staff member of a different opinion as a negative factor in the performance appraisal; (c) changing the first or second reporting officers in order to disempower or sideline them; and (d) using the alleged underperformance of a staff member during previous years as a performance issue in the subsequent performance cycle. Such actions not only compromise the principles of fair evaluation of performance, but also reflect a work environment in which staff feel intimidated to express their professional views for fear of reprisal.

95. In 2019, assisted by an external consultant, the Office developed a comprehensive five-year strategic plan and implementation road map that included an initiative to foster a culture of high performance. The consultant suggested that the Office “could take several steps to identify and prioritize the behavioural changes most critical to unlocking sustained high performance; consider a culture transformation programme to encourage collaboration (e.g. across tenure and between teams); and consider conducting a culture survey at regular intervals”. At the time of the present audit, the Office had yet to develop an action plan to implement the measures suggested by the consultant, which, in the view of OIOS, are essential to addressing the issues pertaining to culture and ethical values in the Office.

Recommendation 10

The Representative should develop and implement a culture transformation programme to cultivate a harmonious, high-performing and ethical culture in the Office of Investment Management, and conduct culture surveys as appropriate.

Comments of the Executive Office of the Secretary-General. The Executive Office of the Secretary-General accepted recommendation 10 and stated that the Representative would develop a culture transformation programme to cultivate a harmonious, high-performing and ethical culture in the Office of Investment Management based on the results of the 2020 Leadership Dialogue of the Ethics Office on “Acknowledging dignity through civility: how can I communicate for a more harmonious workplace?”.

Comments of OIOS. Recommendation 10 remains open pending receipt of the culture transformation programme and actions to implement it.

(*Signed*) Fatoumata **Ndiaye**
Under-Secretary-General for Internal Oversight Services
July 2020

Annex

Comments received from the Executive Office of the Secretary-General on the draft report of the Office of Internal Oversight Services on the audit of governance mechanisms and related processes in the Office of Investment Management of the United Nations Joint Staff Pension Fund

Recommendation	*Critical[a]/important[b]*	*Accepted?*	*Title of responsible individual*	*Implementation date*	*Comments*
Recommendation 1 The Secretary-General should: (a) review and revise the delegation of authority and terms of reference for his Representative for the investment of the assets of the United Nations Joint Staff Pension Fund to focus the responsibility and authority of the Representative on setting investment policy and strategy and providing oversight over investment management; and (b) suitably redefine the role of the Director of the Office of Investment Management to lead investment decision-making within the parameters of the investment policy and strategy, under the oversight of the Representative.	Critical	Yes	(a) Executive Office of the Secretary-General (b) Representative	(a) 30 September 2020 (b) 30 September 2020	**The Secretary-General endorsed, in May 2020, a new organizational structure, whereby the three pillars of the Office – investments management, risk management and compliance, and operations and information technology – will report directly to the Representative of the Secretary-General. Under this structure, the delegation of authority of the Representative of the Secretary-General, the Director of the Office of Investment Management and the Chiefs of the Risk and Compliance Section and the Operations and Information Systems Section will be adjusted to reflect the new segregation of duties.**
Recommendation 2 The Secretary-General should, in consultation with the Investments Committee, assess the experiences gained from the functioning of the Committee and revise the Committee's terms of reference as appropriate to strengthen its relative independence and enhance	Important	Yes	Representative, on behalf of the Secretary-General	31 October 2020	**From April 2020, the acting Representative of the Secretary-General has met virtually on a monthly basis with the Investments Committee to receive advice from the members and to reflect on the working methods of the Committee. The Committee has agreed to change its working methods and**

Recommendation	Critical[a]/important[b]	Accepted?	Title of responsible individual	Implementation date	Comments
the effectiveness of its advisory role.					**meet on a monthly basis, rather than on a quarterly basis, to have a more focused and continuous discussion on the different parts of the portfolio. The objective is to have annually 10 online meetings and only two face-to-face meetings. These and other improvements will be included in the revised terms of reference of the Investments Committee.**
Recommendation 3 The Representative should strengthen the operational independence and effectiveness of the Risk and Compliance Section by filling the authorized posts on a regular basis through a competitive recruitment process and deploying the posts for the purposes for which they were authorized.	Important	Yes	Representative/Chief of the Risk and Compliance Section	All the recruitment processes will be finished by 31 October 2020, with all the staff on-board no later than 31 December 2020	**The Secretary-General endorsed, in May 2020, a new organizational structure, whereby the Risk and Compliance Section will report directly to the Representative of the Secretary-General to strengthen its operational independence and effectiveness. In parallel, all the relevant posts and positions have been assigned to the Service, the hiring processes are under way, and it is estimated that all the posts and positions will be filled by October 2020 and all the staff will be on-board no later than 31 December 2020.**
Recommendation 4 The Representative should enhance the effectiveness of the internal committees by: (a) clarifying the roles and authority of committee members and non-members; (b) promoting professionalism and transparency in the consideration of matters placed before them; and (c) fostering a culture of healthy	Important	Yes	Representative/ Director/Chief of the Risk and Compliance Section/Chief of the Operations and Information Systems Section	31 October 2020	**An internal task force was created in May 2020 to review the terms of reference, composition and working methods of the internal committees. In principle, the Chair of each committee will be occupied by the Director of the Investment Management Division and the Chiefs of the Risk and Compliance Section and the Operations and Information Systems Section.**

Recommendation	*Critical[a]/important[b]*	*Accepted?*	*Title of responsible individual*	*Implementation date*	*Comments*
debate during the committees' meetings, including tolerance of dissenting views and constructive criticism.					
Recommendation 5 The Representative should:	Important	Yes			**An internal task force was created in May 2020 to evaluate the results of the asset-liability management study, the investment policy statement and the portfolio benchmarks and to evaluate the need to adapt them to the new economic and market context. On the basis of the work of the task force and the OIOS recommendation, an asset-liability management policy will be developed. In addition, an internal bottom-up workforce exercise will be performed to determine the capacity gaps and develop a strategy that will match the needs of the Office of Investment Management in the coming years.**
(a) develop an asset-liability management policy by incorporating good practices and lessons learned from previous asset-liability management studies to guide future studies;			(a) Representative/ Chief of the Risk and Compliance Section	(a) 31 October 2020	
(b) conduct a bottom-up workforce planning exercise to determine capacity gaps and develop a strategy to fill them in order to implement the investment strategy in a cost-effective manner; and			(b) Representative/ Chief of the Operations and Information Systems Section	(b) The analysis and proposal will be ready for the 2022 budget submission in the second quarter of 2021	
(c) review the validity of the inputs used for the 2019 asset-liability management study and strategic asset allocation, taking into consideration changes in the economic and market environment and the results of implementing the current strategic asset allocation, in order to make appropriate adjustments if necessary.			(c) Representative/ Chief of the Risk and Compliance Section	(c) The analysis and proposal will be ready in the second quarter of 2021, in time for the 2021 session of the United Nations Joint Staff Pension Board, which will be held in the third quarter	

Recommendation	*Critical[a]/important[b]*	*Accepted?*	*Title of responsible individual*	*Implementation date*	*Comments*
Recommendation 6 The Representative should: (a) reassess the appropriateness of the new benchmark for fixed income; and (b) clarify in the investment procedures the steps to be followed when changing the policy benchmarks to ensure that due process and objectivity are preserved.	Important	Yes	(a) Representative/ Chief of the Risk and Compliance Section (b) Representative/ Chief of the Risk and Compliance Section	(a) The analysis and proposal will be ready in the second quarter of 2021, in time for the session of the United Nations Joint Staff Pension Board, which will be held in the third quarter (b) 31 October 2020	**An internal task force was created in May 2020 to evaluate the results of the asset-liability management study, the investment policy statement and the portfolio benchmarks and to evaluate the need to adapt them to the new economic and market context. As a result, a clear process to define portfolio benchmarks will be included in the investment procedures and a deep review of the benchmarks will be performed.**
Recommendation 7 The Representative should enhance transparency in the investment policy statement by reinstating the section concerning credit rating limits and fully disclosing the strategic asset allocation and benchmarks at the sub-asset class level.	Important	Yes	Representative/ Director/Chief of the Risk and Compliance Section	31 October 2020	**An internal task force was created in May 2020 to evaluate the results of the asset-liability management study, the investment policy statement and the portfolio benchmarks and to evaluate the need to adapt them to the new economic and market context. As a result, additional disclosure in the investment policy statement will be included.**
Recommendation 8 The Secretary-General should review the annual compact with his Representative and strengthen accountability by ensuring that the periods selected for performance assessment are consistent and that the objectives include relative and	Important	Yes	Executive Office of the Secretary-General	The result of the review of the two performance indicators will be included in the 2021 compact cycle	**The long-term performance objective of the Representative of the Secretary-General is to meet or exceed a 3.5 per cent real rate of return in United States dollar terms for a rolling period of 15 years. The Secretary-General will analyse possible short-term performance measurements that**

Recommendation	*Critical[a]/important[b]*	*Accepted?*	*Title of responsible individual*	*Implementation date*	*Comments*
real investment returns for both the short and long terms.					**ensure that the short-term incentives and decisions of the Representative of the Secretary-General are aligned with the long-term goals of the Fund.**
Recommendation 9 The Representative should develop and implement detailed disclosure and recusal procedures by providing examples of scenarios and explaining the steps that should be followed by staff to manage conflicts effectively and in the best interests of the Fund.	Important	Yes	Representative/Chief of the Risk Management and Compliance Service	31 October 2020	**The Representative will develop and implement detailed disclosure and recusal procedures by providing examples of scenarios and explaining the steps that should be followed by staff to manage conflicts effectively, in the best interests of the Fund. The Representative will also establish a new process whereby, at the beginning of each internal committee meeting, the members and invitees will have to disclose any conflict of interest or certify verbally that there is no conflict of interest, which will be included in the minutes.**
Recommendation 10 The Representative should develop and implement a culture transformation programme to cultivate a harmonious, high-performing and ethical culture in the Office of Investment Management, and conduct culture surveys as appropriate.	Critical	Yes	Representative	Full deployment of the 2020 Leadership Dialogue of the Ethics Office by 30 November 2020 Based on the results of the dialogue, a culture transformation programme implemented by 31 March 2021	**The Representative will develop a culture transformation programme to cultivate a harmonious, high-performing and ethical culture in the Office of Investment Management based on the results of the 2020 Leadership Dialogue of the Ethics Office on "Acknowledging dignity through civility: how can I communicate for a more harmonious workplace?"**

[a] Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

[b] Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.