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UNITED NATIONS PENSION SYSTEM

Investments of the United Nations Joint Staff Pension Fund

Report of the Secretary-General

1. At the beginning of 1950, the United Nations Joint Staff Pension Fund had total assets of \$US 8 million which by the end of 1978 had grown to a cost value of \$US 1,610.5 million. The implied rate of growth in the size of the Fund of about 20 per cent per year inevitably makes the investment management task increasingly complex. The present report contains a review of the structure of the Fund's investment portfolio and some of the complexities of the investment decision-making process involved in a portfolio of this size.

A. The investments of the Fund

2. The growth of the Fund is a result of three factors: contributions which are made by the staff, together with those of the United Nations and related agencies, less benefit payments; reinvestment of interest and dividend income received from investment of the Fund's assets; and net realized capital gains. In 1950, net contributions to the Fund amounted to \$US 5.9 million, and dividends and interest were only \$US 200,000. By 1978, net contributions available for investment had climbed to \$US 103.2 million, and interest and dividend income had risen to \$US 84.6 million, with net capital gains from the sale of investments amounting to \$US 15.5 million. After the deduction of investment expenses of \$US 1.94 million, the net sum available for investment during the year 1978 amounted to \$US 201.4 million. The market value of the Fund, which includes both realized and unrealized capital gains and losses, stood at \$US 1,696.1 million as at 31 December 1978.

3. In computing investment return, income from dividends and interest, realized capital gains and losses and unrealized capital appreciation or depreciation are taken into account. Whereas realized gain or loss measure the difference between

the cost of the investment and the actual net amount received on sale, the unrealized capital gain or loss is measured by the difference between the cost of the investment and its market value (or estimated sale price) on the date selected for valuing the Fund. Unrealized capital gains, like realized ones, vary significantly from year to year, since the value placed on securities by the markets depends on a wide range of fluctuating variables, including the growth rate of the country of investment, exchange rates, interest rates, the outlook for the specific investment and investor psychology. Similarly, the total investment return is subject to potentially wide fluctuation from year to year, there being no necessary correlation between realized capital losses or gains and the total investment return achieved for a particular year. It is possible, for example, that substantial unrealized capital gains could be recorded, giving a high total return, even taking into account that losses could have been realized as a result of switching from poor performing investments into others with better prospects.

4. Investment management is faced with the need to make prudent choices among various kinds of investments which can be classified, broadly, into equities, real estate, fixed-interest securities and short-term investments. Each group has its own set of risks and rewards, which differ in magnitude, character, and difficulty of assessment. These variables also change over time. It is therefore not advisable to concentrate investments solely in one group or to maintain a rigid proportion between groups. The history of the allocation of funds to the main components of the United Nations Joint Staff Pension Fund portfolio shows a steady decline in the importance of fixed-income investments from 1960 until 1973, at which point they represented 22 per cent of the market value of total assets. During the same period, equities (defined as publicly traded shares in companies) increased from 30 per cent of the portfolio to 75 per cent. After peaking in 1973, equities were reduced to reach 51 per cent as at 30 June 1979, and fixed-interest securities were increased to 39 per cent over the same period. In 1968, it was recognized that short-term investments would offer a means of hedging against uncertainty. Real estate was subsequently added to the portfolio in 1972 and now accounts for 4 per cent of the total.

5. These changes are the result of applying the principle of varying the asset mix of the portfolio to reflect changing market developments. By the same token, diversification is sought with regard to country and currency of investments. In that respect, the United Nations Joint Staff Pension Fund is well diversified internationally compared with most other pension funds. In 1960, 97 per cent of the Fund's long-term investments were in the United States of America, but by 1970 that proportion had fallen to 87 per cent. However, by 31 March 1979, only 42 per cent, or \$US 691 million, of its long-term investments were in the United States, although an additional \$US 300 million were invested in dollar-denominated securities of other countries or companies domiciled in other countries. The Fund now has investments in 34 other countries, 12 of which are developing countries. It also holds significant investments in the major world-wide and regional development banks, including the African Development Bank, the Asian Development Bank and the Inter-American Development Bank.

6. The history of the equity component of the portfolio further indicates the increasing complexity of managing the Fund's investment portfolio, since equity

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investment requires assessment of the current and expected conditions of each country's economy, securities markets and specific securities. In 1960, the equivalent of \$US 1 million was invested in equities outside the United States, compared with \$US 29 million invested in that country. By 1970, equity investments in other countries had increased to \$US 57 million and, as at 30 June 1979, a total of \$US 415 million (45 per cent of the equity portfolio) was invested outside the United States, compared with \$US 518 million invested in that country. Investments were held in 16 different stock markets and 13 different currencies.

7. This now established policy of increasing international diversification is in response to the wishes of the General Assembly and the Pension Board.

B. Investment management of the Fund's assets

Regulations

8. The regulations of the United Nations Joint Staff Pension Fund which govern the investment of its assets are article 18, which states:

"The assets shall be the property of the Fund and shall be acquired, deposited and held in the name of the United Nations, separately from the assets of the United Nations, on behalf of the participants and beneficiaries of the Fund";

and article 19 (a), which states:

"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 Board on the investments policy."

9. In matters relating to the investments of the Fund, the Secretary-General is assisted by the Under-Secretary-General for Administration, Finance and Management and by the Assistant Secretary-General for Financial Services, together with his investment staff. Additional support is given by the Investments Committee, which is provided for in article 20 of the Regulations of the Fund in the following terms:

"The Investments Committee shall consist of nine members appointed by the Secretary-General after consultation with the Board and the Advisory Committee on Administrative and Budgetary Questions, subject to confirmation by the General Assembly."

Two institutional investment firms are also retained on a contractual basis. Together with the Office of Financial Services staff, these groups provide the principal advice and service to the Secretary-General for the investment, management and administration of the assets of the Fund. The Secretary-General also draws upon appropriate specialized expertise when necessary.

Investments Committee

10. The role of the Investments Committee is to advise on:

(a) Investment policy;

(b) Diversification of the Fund, i.e., as between equities and bonds, as among economic sectors, and as to geographic areas and currencies.

The Committee meets formally four times a year. One of these meetings is held in conjunction with the session of the Pension Board in order to give the Board an opportunity to meet with the members of the Committee. The investment staff in the Office of Financial Services maintains contact with the Committee on a continuous basis and provides it with support services.

11. In recent years, the Investments Committee has been expanded from six members to nine to provide a wider geographic distribution and to permit more intensive review of economic trends in developing countries, with a view towards locating suitable investments for the Fund.

Investment advisers

12. The United Nations Joint Staff Pension Fund retains two institutional investment firms to conduct research, provide analyses and make recommendations concerning sectoral and individual investments. These firms execute, with the approval of the Secretary-General, purchases and sales of securities based on the Fund's investment policy and maintain custody of the Fund's securities. Custodial services provided include:

(a) Collection of all income;

(b) Processing of all investment transactions;

(c) Maintenance of physical control of security instruments and other assets;

(d) Accounting for, and reporting on, the assets.

13. The existing advisers have well-established facilities for monitoring the major investment markets of the world and providing balanced, objective recommendations. However, they cannot be expected to provide the in-depth investment research required by the Fund in view of all aspects of the international diversification of investments, particularly in relation to developing countries. For this reason, it is envisaged that correspondents will be sought in the major economic regions, particularly in the developing areas, to provide supplementary advice to the Secretary-General and the Investments Committee.

Secretariat

14. Under the authority of the Secretary-General, the Under-Secretary-General for Administration, Finance and Management has over-all responsibility for the

investments of the Fund. He is supported by the Assistant Secretary-General for Financial Services, whose Investments Section assists in evaluating investment advice and in making final recommendations to the Secretary-General as to the purchase or sale of investments. The staff of the Investments Section:

- (a) Evaluates the investment results achieved;
- (b) Supplies reports on investments, accounting and custodial work;
- (c) Acts as liaison between the institutional investment firms and the Investments Committee;
- (d) Handles investment-related matters in relation to the General Assembly, the Advisory Committee on Administrative and Budgetary Questions, the Pension Board and the Board of Auditors.

15. In order to perform its functions, the investment staff of the Office of Financial Services maintains contact with the major investment markets in which the Fund has, or might have, investments. Particular attention is currently being given to investment opportunities in developing countries. The staff also keeps abreast of the Fund's individual investments and monitors the activities of the paid investment advisers. Consulting services are retained when necessary, and the staff also receives and reviews a wide range of investment surveys, analyses and reports from investment houses, banks and other sources throughout the world.

16. Every effort is being made to ensure that the investments of the United Nations Joint Staff Pension Fund are managed in a manner which is consistent with the highest standards of professional investment management, in conformity with the Regulations of the Fund and in careful observance of the requirements of safety, profitability, liquidity and convertibility, and due consideration for the responsibility it has to participants and beneficiaries of the Fund.

C. Advisory fees

17. A new fee scale was recently negotiated by the Under-Secretary-General for Administration, Finance and Management with the company which advises in relation to the largest part of the portfolio, providing for a substantial reduction in its compensation. As a result, each additional \$US 1 million will carry a cost burden of only \$US 750 per year. The new scale compares most favourably with those paid by the sponsors of other large funds.

18. The fee as remuneration for the advisers is related to the market value of the assets of the Fund on which they advise and, therefore, does not depend on the volume of transactions undertaken on behalf of the Fund. This method of fee calculation is normal practice and is designed to remove the temptation to make recommendations in order to obtain higher income.

19. Investment advisers must generally use an intermediary, normally a stockbroker, to effect each transaction. The stockbroker receives a brokerage

commission which is related to the value of the transaction and is automatically deducted by the broker from the proceeds of a sale and added to the cost of a purchase.

20. In 1978, the total value of commissions amounted to \$US 740,000, representing less than one half of 1 per cent of the value of transactions undertaken by the Pension Fund. The decision as to which brokers are selected is based on a number of factors and is made both by the investment advisers and the Secretary-General in the best interests of the Fund. The main factors influencing the decision are the ability of the particular broker to achieve the best possible price and the quality of research data provided to both the investment staff and the advisers.

D. General Assembly resolutions

21. The General Assembly has requested the Secretary-General to ensure that a larger proportion of the Fund's resources are invested in developing countries, preferably by reinvesting the proceeds of sales of holdings in transnational corporations and to seek to increase substantially the amount invested in Africa. 1/

22. The record of increase of development-related investments of the Fund has continued. As at 30 June 1979, these investments amounted to \$US 206 million, over the \$US 165 million as at 30 June 1978, representing an increase of 25 per cent. This increase was achieved largely by investing a substantial portion of the Fund's cash flow in development-related bond issues, which, as at 30 June 1979, represented 29 per cent of the entire bond portfolio. Annex I contains a listing of these holdings, the highest proportion consisting of publicly traded obligations of the three large development institutions: the World Bank, the Asian Development Bank, and the Inter-American Development Bank. Recently issued bonds of the African Development Bank and the Central American Bank for Economic Integration are also included among these holdings. Further investments in developing countries, that is, Argentina, Bolivia, Costa Rica and Malaysia, indicate a continuous search by the Secretary-General and his support staff for opportunities to invest directly in developing countries. As a result of these efforts, investments made directly in developing countries now stand at \$US 51 million. It is the intention of the Secretary-General to commit additional funds to investments in developing countries as suitable opportunities become available.

23. For the purpose of reporting on investments in transnational companies, the Secretary-General has understood the latter term as indicating entities which manufacture goods or provide services in more than one country. 2/ The Fund's total portfolio of investments of \$US 1,767 million at market value on 31 March 1979, of which \$US 907 million, or about half, were invested in the

1/ Resolutions 33/121 A and B of 19 December 1978 and earlier resolutions cited therein.

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

securities of transnational corporations. This makes a slight decline in the proportionate share of those investments from 52 per cent a year earlier, despite a substantial increase in the market price of shares already held. Of those securities, \$US 769 million were invested in equities, and the balance of \$US 138 million in bonds.

24. The criteria established for investment of the Fund's assets, particularly the important criterion of liquidity, are such as to make extremely difficult investment in companies which do not conduct business in more than one country. None the less, careful examination is given to each investment opportunity to ensure full harmony with the purposes and objectives of the United Nations. To that end, consultations are also undertaken with the Investments Committee. In addition, particular attention is given to the pertinent decisions of organs of the United Nations, including those relevant to the Committee on Transnational Corporations.

25. The investment considerations of the Secretary-General and the Investments Committee have especially included a close scrutiny of investments in Africa. As a part of this commitment to seek investments, approaches have been made to the African Development Bank and to other development-related institutions in Africa. Until now, these efforts could not locate a response fully adequate to meet all expectations for investment opportunities. They are therefore being intensified, particularly in the area of public bond issues, because such issues have the desirable level of liquidity. As regards this aspect of the management of the Fund, attractive investment opportunities might be anticipated for the future, since several institutions in Africa have indicated their intentions to make public issues available. However, recent market conditions appear not to have been generally conducive to issuing new securities.

26. The search for investment opportunities in developing countries is not being limited solely to locating fixed-interest securities. Yet in many countries, equity-type securities do not offer the necessary degree of marketability and liquidity ascribed to in the investment policy of the Fund. As a result, fixed-interest instruments provide easier access by the Fund to investments in developing countries, as well as international diversification generally.

27. The Secretary-General will pursue and intensify his investment policy geared to an increase in the Fund's participation in developing countries in harmony with the enunciated principles governing the investments of the Fund and on the basis of a prudent over-all investment strategy.

Annex

UNITED NATIONS JOINT STAFF PENSION FUND INVESTMENTS IN DEVELOPMENT SECURITIES
AS AT 30 JUNE 1979

A. Bonds denominated in United States dollars

1. Investments in specific countries

<u>Par value</u> (\$US)	<u>Description</u>	<u>%</u>		<u>Cost</u> (\$US)	<u>Total</u> (\$US)
<u>Algeria</u>					
750 000	Banque Extérieure d'Algérie	9.00	1982	735 313	
1 000 000	Banque Nationale d'Algérie	8.25	1982	969 687	
1 770 000	Banque Extérieure d'Algérie	12.75	1985	1 699 200	
1 000 000	Sonatrach	12.687	1992	<u>955 000</u>	4 359 200
<u>Argentina</u>					
2 000 000	Banco de la Nación Argentina	11.375	1986	<u>1 962 500</u>	1 962 500
<u>Bolivia</u>					
1 500 000	Bolivia	10.25	1982	<u>1 425 000</u>	1 425 000
<u>Brazil</u>					
2 900 000	Brazil Federative Republic	9.00	1982	2 878 823	
1 780 000	Brazil Federative Republic	9.25	1984	1 749 310	
1 861 000	Light Serviços de Electricidade	9.00	1982	1 836 699	
1 120 000	Brazil Federative Republic	10.00	1981	<u>1 110 400</u>	7 575 232
<u>Costa Rica</u>					
500 000	Costa Rica Republic, Floating Rate	9.125	1985	<u>493 025</u>	493 025
<u>Ecuador</u>					
3 600 000	Ecuador Republic	9.50	1984	<u>3 555 000</u>	3 555 000
<u>Mexico</u>					
700 000	Financiera Nacional Azucarera	9.00	1982	680 750	
2 500 000	Petróleos Mexicanos	9.00	1982	<u>2 461 123</u>	3 141 873
<u>Papua New Guinea</u>					
2 709 000	Papua New Guinea	9.50	1983	<u>2 699 076</u>	2 699 076
<u>Philippines</u>					
2 000 000	National Power Corp. Reb.	8.20	1989	<u>2 002 500</u>	2 002 500
<u>Venezuela</u>					
2 800 000	Venezuela Republic	7.875	1982	2 666 820	
7 300 000	Venezuela Republic	8.125	1984	7 166 050	
3 700 000	Venezuela Republic	8.75	1992	<u>3 646 773</u>	<u>13 479 643</u>
Total investments in specific countries					40 693 049

2. Investments in development institutions

<u>Par value</u> (\$US)	<u>Description</u>	<u>%</u>		<u>Cost</u> (\$US)	<u>Total</u> (\$US)
4 000 000	African Development Bank	9.4375	1983	<u>3 882 500</u>	3 882 500
2 000 000	Central American Bank for Economic Integration	7.00	1994	<u>1 960 875</u>	1 960 875
6 785 000	ADB (Asian Development Bank)	8.625	1986	6 767 807	
2 305 000	ADB	7.75	1996	<u>2 152 720</u>	8 920 527
3 200 000	IADB (Inter-Am. Dev. Bank)	8.00	1985	3 090 040	
4 250 000	IADB	9.00	2001	4 247 084	
5 000 000	IADB	8.75	2001	4 949 425	
7 650 000	IADB	9.625	2004	<u>7 788 000</u>	20 074 549
1 000 000	IBRD (World Bank)	8.00	1980	986 250	
600 000	IBRD	8.30	1980	601 500	
1 250 000	IBRD	8.60	1985	1 248 773	
5 500 000	IBRD	8.15	1985	5 540 934	
11 228 000	IBRD	5.00	1985	9 315 066	
6 300 000	IBRD	8.375	1986	6 214 031	
2 000 000	IBRD	7.80	1986	1 996 000	
10 700 000	IBRD	7.75	1987	9 998 405	
7 920 000	IBRD	4.50	1990	6 009 490	
3 250 000	IBRD	5.375	1992	2 423 190	
4 250 000	IBRD	5.875	1993	3 479 196	
4 615 000	IBRD	6.50	1994	3 756 100	
5 500 000	IBRD	6.375	1994	4 373 926	
2 000 000	IBRD	8.625	1995	1 959 370	
4 250 000	IBRD	9.35	2000	4 229 796	
500 000	IBRD	8.35	2002	<u>477 640</u>	<u>62 609 667</u>
Total investments in development institutions					<u>97 448 118</u>
Total bonds denominated in United States dollars					138 141 167

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B. Bonds denominated in currencies other than United States dollars

1. Investments in specific countries

<u>Par value</u> ('000)	<u>Description</u>	<u>⋆</u>	<u>Cost</u> (\$US)	<u>Total</u> (\$US)
<u>Algeria</u>				
DM 1 000	Banque Extérieure d'Algérie	7.25 1985	541 379	
SwF 2 500	Banque Extérieure d'Algérie	5.25 1983	1 442 474	
DM 220	Banque Nationale d'Algérie	7.25 1983	<u>110 436</u>	2 094 289
<u>Malaysia</u>				
DM 2 000	Malaysia	6.50 1985	958 192	
Y 100 000	Malaysia No. 2	7.20 1989	473 188	1 431 380
<u>Mexico</u>				
DM 1 000	Banco Nacional de Obras	8.00 1986	491 626	
SwF 2 000	Petróleos Mexicanos	5.375 1983	905 800	
f. 1 000	Mexico	8.25 1982	486 872	1 884 298
<u>Philippines</u>				
DM 2 250	Philippines Republic	7.25 1984	978 160	
DM 1 000	Philippines Republic	6.75 1985	<u>479 064</u>	1 457 224
<u>Trinidad and Tobago</u>				
DM 6 700	Trinidad and Tobago	6.00 1983	<u>3 292 704</u>	<u>3 292 704</u>
Total investments in specific countries				10 159 895

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2. Investments in development institutions

<u>Par value</u> ('000)	<u>Description</u>	<u>%</u>		<u>Cost</u> (\$US)	<u>Total</u> (\$US)
DM 7 000	African Development Bank	7.75	1986	<u>3 543 120</u>	3 543 120
f. 5 000	Voor Ontwikkelingslanden				
	Nederlandse Investeringsbank	7.75	1987	2 042 496	
f. 2 450	Voor Ontwikkelingslanden				
	Nederlandse Investeringsbank	9.00	1994	<u>1 185 424</u>	3 227 920
DM 4 000	Asian Development Bank	8.50	1980	1 521 196	
DM 1 300	Asian Development Bank	8.00	1982	651 958	
DM 2 000	Asian Development Bank	7.00	1985	836 400	
Y 885 000	Asian Development Bank	5.75	1988	4 635 837	
SwF 10 000	Asian Development Bank	8.50	1980	3 660 322	
SwF 4 000	Asian Development Bank	4.375	1988	<u>2 258 611</u>	13 564 324
Y 130 000	IADB (Inter-Am. Dev. Bank)	6.80	1989	551 033	
DM 4 550	IADB	7.75	1986	2 454 100	
DM 2 250	IADB	8.00	1983	883 196	
DM 2 500	IADB	8.25	1983	1 015 414	
DM 6 000	IADB	7.00	1987	<u>2 486 457</u>	7 390 200
SwF 2 000	IBRD (World Bank)	4.50	1984	1 208 459	
SwF 5 000	IBRD	8.25	1982	2 008 032	
SwF 10 000	IBRD	7.50	1980	3 738 317	
SwF 1 000	IBRD	8.25	1982	400 400	
\$Can 550	IBRD	7.25	1979	535 643	
\$Can 500	IBRD	6.25	1992	361 334	
SwF 3 000	IBRD	5.375	1984	1 258 125	
SwF 3 000	IBRD	3.75	1986	1 815 765	
SwF 2 000	IBRD	7.00	1983	793 021	
SwF 1 850	IBRD	5.375	1982	742 158	
SwF 2 000	IBRD	6.125	1982	785 084	
SwF 2 000	IBRD	5.375	1982	802 340	
DM 351	Weltbank	7.50	1986	124 264	
DM 522	Weltbank	6.50	1984	172 046	
DM 555	Weltbank	7.50	1986	176 260	
DM 2 700	Weltbank	6.75	1987	1 199 074	
DM 4 000	Weltbank	8.25	1982	1 711 864	
DM 9 000	Weltbank	8.25	1983	3 732 286	
DM 2 200	Weltbank	6.50	1987	1 304 818	
DM 750	Weltbank	8.00	1982	416 847	
DM 6 000	Weltbank	8.00	1982	2 282 982	
DM 6 000	Weltbank	8.25	1982	2 573 450	
DM 1 500	Weltbank	7.50	1983	576 509	
DM 3 000	Weltbank	7.00	1987	<u>1 262 285</u>	<u>29 981 363</u>
Total investments in development institutions					<u>57 706 927</u>
Total bonds in currencies other than in United States dollars					<u>67 866 822</u>
Total investments in development securities					206 007 989