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UNITED NATIONS PENSION SYSTEM

United Nations Joint Staff Pension Fund investments in transnational corporations and in developing countries

Report of the Secretary-General

1. At its 107th plenary meeting on 22 December 1976 the General Assembly adopted resolution 31/197, the text of which is contained in annex I. In the substantive paragraph of that resolution the General Assembly requested the Secretary-General, in consultation with the Investments Committee, which was enlarged at that session to reflect wider and more equitable geographic distribution, to "ensure that the resources which the United Nations Joint Staff Pension Fund holds invested in shares of transnational corporations are invested on safe and profitable terms and, to the greatest extent practicable, in sound investments in developing countries". The General Assembly also requested the Secretary-General to report to the General Assembly at its thirty-second session on the implementation of that resolution.

2. As the trustee for the Pension Fund, the Secretary-General believes that if he is to report on investments in transnational corporations and developing countries, as on any other segment of the Fund's holdings, he should do so in a manner that reflects the over-all investments of the Fund; that is, each component of the Fund should be viewed in the perspective of the rationale underlying the investment of the portfolio as a whole.

3. The policy governing the investment of the assets of the Pension Fund and the definition of that policy have, from the outset, been based on the Secretary-General's belief, as shared by the Investments Committee, that the interests of the Fund would best be served by adherence to certain overriding principal objectives, which might most effectively be attained through reliance on reasonably well-defined and pertinent considerations applicable to any investment contemplated for the Fund.

4. In general, investment of the assets of the Fund should be made so as to protect those assets, supply a sufficient profit and ensure adequate liquidity and appropriate convertibility, so that the long-term requirements of the Fund can be met. Thus, the principal investment objectives are safety, profitability, liquidity, and convertibility. Consequently, in the appraisal of investments for the Fund the considerations applied are those which seem to be pertinent to the attainment of these goals. These objectives apply to all investments, whether in equities, bonds or other securities, and without regard to whether the issue being considered is that of a business corporation, a government or government institution, or an international financial institution. Naturally, judgement is a most important factor in deciding whether those principal objectives have been met and, accordingly, whether an investment should be made. To this end, proposals are analysed and weighed against the successively specific considerations which may be applicable, case-by-case.

5. As an objective for the Fund, safety should be construed as the maintenance of the Fund's principal and the protection, to the extent possible, against the erosion of the purchasing power of its assets. Therefore, in the placement of any investment, very careful consideration must be given to the prevailing investment environment which encompasses the economic and financial factors that may influence the safety of such an investment.

6. In any market, proper assessment of safety requirements necessitates an evaluation of all the aspects of that market which relate to the protection and long-term viability of a prospective investment. In appraising the safety of equity investments, the ability and accomplishments of a company's management must be assessed and its financial condition and earnings potential analysed. For bonds and other debt securities, it must be determined based on satisfactory evidence that a prospective borrower, be it a country or a company, has the ability to fulfil its obligations of both principal and interest, in full and on time. Proper investment practice also requires constant monitoring of portfolio holdings, which can only be achieved with access to diverse and extensive sources of reliable information.

7. As a component of safety, careful attention must be given by the Secretary-General to the diversification of the Fund's investments in order to spread the risk, to the extent feasible. A countervailing factor which must be considered is that any investment should be of sufficient size to offer prospects of a satisfactory profit, as too broad a scattering of the Fund's holdings could very easily dilute the profit potential. On the other hand, no investment should be made in an amount that would place the Fund in the position of being de facto a direct entrepreneur, rather than a portfolio investor.

8. The profitability offered by a prospective investment market relates to a very large extent to the risk to which the investment is exposed. In that the Fund's first need is for safety, possible potential investment return cannot be the sole indicator as to the propriety of an investment. Instead, reasonably balanced degrees of emphasis should be placed on return and risk. Consequently, the Fund should, at times, forgo the temptation of a seemingly attractive return if the underlying security appears to involve too high a degree of risk. Against

this background, the Fund's investment activity must be focused on the long-term prospects for an investment, rather than the short-term market outlook that often reflects very temporary conditions.

9. In view of the purpose of the Fund, investments should be predicated on considerations of safety and profitability. Accordingly, the Fund should be guided by those considerations in appraising investment opportunities in different geographic areas. In order to ensure that the Fund maintains a course of geographic neutrality, a great deal of attention must be given to careful evaluation of objective economic indicators and other information that provide sufficient evidence of the availability of secure and profitable investments.

10. In view of the character of the Pension Fund, it is essential that the investments have a substantial degree of liquidity and marketability, in order to safeguard the Fund against undue losses that might otherwise occur when it becomes necessary or desirable to sell a particular security. The required liquidity, in turn, depends very much on the magnitude of any market. As a consequence, the Fund's investments should be placed in markets of sufficient size to provide the required degree of marketability. The Pension Fund has been able to obtain a satisfactory degree of liquidity by concentrating on issues that are offered through appropriate large international investment underwriting institutions that provide the investor with a wide spread of placement facilities as well as the necessary breadth of information.

11. From an investment standpoint, currency convertibility is just as important an aspect of liquidity as is marketability. Furthermore, the investments of the Fund and the income from them are the financial resources from which the Fund must fulfil its commitments to meet the flexible needs of pensioners. Hence the currencies in which these investments are placed should be readily convertible from one currency to another.

12. With regard to investments in transnational corporations the Secretary-General, in consultation with the Investments Committee, has reviewed those placements. In reporting on the review, the Secretary-General for this purpose has taken as transnational corporations, corporations which manufacture goods or provide services in more than one country. Of the Fund's total portfolio, which amounted to the equivalent of $1,273 million at market value on 31 March 1977, $772 million or 61 per cent was invested in the securities of transnational corporations. Of these securities, $624 million had been placed in equities and the balance, $148 million, in bonds. Parenthetically, it may be of interest to note that the balance of the Fund's long-term investments were placed as follows: $279 million in non-transnational corporations, $99 million in government or government agency issues, $107 million in international governmental institutions. The remaining $16 million was held as a temporary reserve in short-term securities.

13. Bearing in mind that equities and bonds can act differently at different times and in different markets, the Secretary-General, in consultation with the Investments Committee, has reviewed all of the securities in the portfolio in the light of the applicable criteria outlined in paragraphs 4 through 11. It is his opinion, as shared by the Investments Committee, that these securities conform to

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those criteria and hence are invested on sound and profitable terms consistent with the long-term objectives of the Pension Fund.

14. With regard to investments in developing countries, the General Assembly was advised at its thirty-first session that, as at 30 June 1976, the development-related investments of the Pension Fund had been increased during the preceding 12 months from $40 million to $79 million. As at 30 June 1977, such commitments amounted to $124 million. Subsequently, these have been increased to $133 million. These increases were achieved by committing a significant portion of the Fund's annual cash flow to bond holdings relating to developing countries. As a result, at 30 June 1977, these holdings represented 26 per cent of the entire bond portfolio. Annex II contains a listing of these holdings as at 30 June 1977, the bulk of which consists of publicly issued obligations of three large development institutions: the World Bank, the Asian Development Bank and the Inter-American Development Bank.

15. In connexion with increasing the Fund's participation in the economies of developing countries, the Secretary-General in consultation with the Investments Committee, and within the guidelines adopted for any commitment of the Fund, endeavours to take the fullest advantage of investment opportunities as they present themselves. It is believed, for a fund such as the United Nations Joint Staff Pension Fund, that the purchase of issues of the largest development institutions enables the Fund to provide constructive participation for the benefit of developing countries. These institutions, whose common purpose is to promote economic advancement by way of financial assistance and substantial advice on a continuing basis, have been carefully structured and capably staffed for these purposes. Security issues of those organizations meet fully all of the income and high qualitative criteria which are pertinent to the investment policy of the Fund, and particularly afford the convertibility and liquidity needed to permit orderly purchase and sale in significant quantities.

16. The Secretary-General, in consultation with the Investments Committee, continues to explore opportunities to invest directly in developing countries. During the year ended 30 June 1977, such bond investments increased from under $5 million to over $18 million. Subsequently, these have been increased to $22 million. It is the intention of the Secretary-General to commit additional funds to direct investments in developing countries as conditions permit, and it is expected that opportunities to enter into such commitments will continue to expand.

17. Bearing in mind that all investments, whether in developed or developing countries, must be made within the context of a prudent over-all investment strategy, the Secretary-General, in consultation with the Investments Committee, will continue his efforts to diversify the Pension Fund portfolio in a manner considered most likely to preserve and increase the assets of the Fund.

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RESOLUTION ADOPTED BY THE GENERAL ASSEMBLY

/On the report of the Fifth Committee (A/31/455, A/31/L.36)/

31/197. Investments of the United Nations Joint Staff Pension Fund

The General Assembly,

Noting with concern that the United Nations Joint Staff Pension Fund has long-term investments in transnational corporations amounting to approximately $600 million,

Recalling the resolutions adopted by the United Nations and other international organizations concerning the new international economic order and the transnational corporations,

Taking into account that investments by the United Nations Joint Staff Pension Fund in shares of transnational corporations may contradict the objectives and purposes of the organizations of the United Nations system,

Considering that the investments made by the United Nations Joint Staff Pension Fund directly in the developing countries, while increasing, are extremely small,

1. *Requests* the Secretary-General, in consultation with the Investments Committee, which is being enlarged at the current session 1/ to reflect wider and more equitable geographical distribution, to ensure that the resources which the United Nations Joint Staff Pension Fund holds invested in shares of transnational corporations are invested on safe and profitable terms and, to the greatest extent practicable, in sound investments in developing countries;

2. *Also requests* the Secretary-General to report to the General Assembly at its thirty-second session on the implementation of the present resolution.

107th plenary meeting
22 December 1976

1/ See General Assembly resolution 31/196, sect. II.

Annex

UNITED NATIONS JOINT STAFF PENSION FUND

Investments in development securities

as of 30 June 1977

	Par value	Description	Cost value (US dollars)	
$US	5 250 000	Asian Development Bank 8.50% 1980	5 198 000	
	1 550 000	Asian Development Bank 8.50% 1981	1 547 000	
	5 785 000	Asian Development Bank 8.625% 1986	5 771 000	
	1 600 000	Asian Development Bank 7.75% 1996	1 551 000	
	1 500 000	IADB 4.50% 1984 (Inter-American Development Bank)	1 163 000	
	1 000 000	IADB 8.00% 1985	978 000	
	1 820 000	IADB 9.00% 2001	1 820 000	
	1 500 000	IBRD 8.00% 1980 (World Bank)	1 524 000	
	1 200 000	IBRD 4.50% 1982	1 058 000	
	325 000	IBRD 8.00% 1982	325 000	
	5 500 000	IBRD 8.15% 1985	5 541 000	
	9 750 000	IBRD 5.00% 1985	8 053 000	
	2 900 000	IBRD 8.60% 1985	2 891 000	
	5 000 000	IBRD 8.375% 1986	5 000 000	
	5 000 000	IBRD 7.80% 1986	4 990 000	
	6 505 000	IBRD 4.50% 1990	4 961 000	
	1 000 000	IBRD 5.375% 1991	778 000	
	1 000 000	IBRD 5.375% 1992	763 000	
	4 250 000	IBRD 5.875% 1993	3 479 000	
	4 115 000	IBRD 6.50% 1994	3 353 000	
	5 750 000	IBRD 6.375% 1994	4 780 000	
	500 000	IBRD 8.85% 1995	493 000	
	2 000 000	IBRD 9.35% 2000	2 045 000	
	500 000	IBRD 8.85% 2001	500 000	
	2 000 000	IBRD 8.375% 2001	1 991 000	
	350 000	IBRD 8.25% 2002	344 000	
	2 900 000	Brazil, Fed. Republic of, 9.25% 1984	2 850 000	
	2 000 000	National Power Corporation (Philippines) 8.20% 1989 (guar. Export-Import Bank, USA)	2 003 000	
	2 337 000	Papua New Guinea 9.50% 1983 (guar. Australia)	2 310 000	
	2 250 000	Petroleos Mexicanos 9.00% 1982	2 257 000	
	1 500 000	Venezuela, Republic of, 6.00% 1977	1 461 000	
	2 500 000	Venezuela, Republic of, 7.875% 1982	2 497 000	
	5 050 000	Venezuela, Republic of, 8.00% 1984	5 010 000	89 285 000

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UNITED NATIONS JOINT STAFF PENSION FUND

Investments in development securities

as of 30 June 1977

Par value		Description	Cost value (US dollars)	
DM	4 000 000	Asian Development Bank 8.50% 1980	1 521 000	
DM	2 000 000	Asian Development Bank 7.00% 1985	836 000	
SwF	10 000 000	Asian Development Bank 8.50% 1980	3 660 000	
DM	2 250 000	IADB 8.00% 1983 (Inter-American Development Bank)	883 000	
DM	2 200 000	IADB 8.25% 1983	846 000	
DM	6 000 000	IADB 7.00% 1987	2 486 000	
$Can	550 000	IBRD 7.25% 1979 (World Bank)	536 000	
$Can	250 000	IBRD 6.25% 1992	189 000	
DM	12 000 000	IBRD 8.25% 1982	5 141 000	
DM	6 000 000	IBRD 8.00% 1982	2 283 000	
DM	1 500 000	IBRD 7.50% 1983	577 000	
DM	9 000 000	IBRD 8.25% 1983	3 732 000	
DM	2 000 000	IBRD 8.00% 1984	776 000	
DM	743 000	IBRD 6.50% 1984	321 000	
DM	500 000	IBRD 7.50% 1986	177 000	
DM	750 000	IBRD 7.50% 1986	236 000	
DM	3 000 000	IBRD 7.00% 1987	1 262 000	
DM	1 250 000	IBRD 6.75% 1987	386 000	
SwF	10 000 000	IBRD 7.50% 1980	3 738 000	
SwF	3 850 000	IBRD 5.375% 1982	1 544 000	
SwF	6 000 000	IBRD 8.25% 1982	2 408 000	
SwF	2 000 000	IBRD 6.125% 1982	785 000	
SwF	2 000 000	IBRD 7.00% 1983	793 000	35 116 000
		Total		124 401 000
