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Investments of the United Nations Joint Staff Pension Fund and measures undertaken to increase diversification of the United Nations Joint Staff Pension Fund

Report of the Secretary-General

I. Introduction

1. The management of the investments of the assets of the United Nations Joint Staff Pension Fund is the fiduciary responsibility of the Secretary-General of the United Nations, who acts in consultation with the United Nations Investments Committee, taking into account the observations on broad policy of the United Nations Joint Staff Pension Board and the General Assembly. The Investments Committee provides advice to the Secretary-General on investment strategy and reviews the investments of the Fund at its quarterly meetings. The Assistant Secretary-General for Central Support Services has been designated as the representative of the Secretary-General for the investments of the Fund and has been delegated the responsibility for the oversight of the investment of the assets of the Fund on behalf of the Secretary-General. The representative is assisted by the staff of the Investment Management Division. All investments must, at the time of initial review, meet the criteria of safety, profitability, liquidity and convertibility.

2. The present report gives information on the management of the investments of the Fund during the fiscal biennium period 1 April 2010 to 31 March 2012, and provides information on investment returns, the diversification of investments and development-related investments of the Fund. For the fiscal year ending 31 March 2011, the Fund returned 11.9 per cent and for the calendar year ending 31 December 2011, the Fund returned -3.9 per cent. During the fiscal year ending 31 March 2012, the Fund returned 0.6 per cent. Fortunately, market volatility is evident on the upside as well as on the downside. For the two-year period ending 30 June 2012, the Fund returned 8.6 per cent. Although recent performance was strengthened by the

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incorporation of systematic risk management during the last quarter of 2011, much of the improvement in 2012 resulted from the sharp upswing in financial markets. Amid this extremely volatile and uncertain global market environment, the Investment Management Division made efforts to reduce risks.

II. Changes during the fiscal biennium

3. During the fiscal biennium ending 31 March 2012, the Fund benefited from the extended recovery in global equities that emerged out of the March 2009 low point, and the Fund recorded a new historical high of $42,978 million on 3 March 2011, surpassing the previous high recorded in October 2007, prior to the global financial crisis. However, amid deepening concern over the European debt crisis, deleveraging in the financial sector, soft patches in the developed markets and inflation pressures in the emerging markets, overall global economic growth was very subdued. The global emerging markets, which had been major growth drivers in past years, were not immune. The Fund value was $43,091 million as at 31 March 2012.

4. The Fund started buying equity from the first quarter of 2009 and had maintained an overweight position since the third quarter of 2009. However, it began reducing the allocation aggressively after the Investments Committee meeting in July 2011. Despite historically attractive valuations, deteriorating conditions in Europe weakened equity prices at year end. In the third quarter of 2011, the Fund reduced its equities exposure in developed markets from 65.3 per cent to approximately 60.0 per cent and, as at 30 September 2011, the allocation was further reduced to 58.7 per cent. At the end of the fiscal biennium, equities were at 60.6 per cent. As a result of the reduced equity weight, the Fund held relatively high levels of cash, which was 4.8 per cent of the total Fund, as at 31 December 2011. The Investment Management Division was cautious in fixed income securities amid the historical low yields. Bonds were kept below the 31 per cent long-term strategic target guideline. The bond portfolio weight was 28.8 per cent at the end of March 2012. Exposure to real estate increased from 3.6 per cent of the portfolio on 1 April 2010 to 4.5 per cent at the end of the fiscal biennium. To seek further diversification and return enhancement, the Division also reviewed many investment opportunities in private equity, real estate, infrastructure and commodities. Methodically and prudently building a portfolio takes time owing to the extensive due diligence process (at which stage many investment proposals were rejected), contract negotiations and investment process.

5. For the fiscal biennium ending 31 March 2012, the total Fund had an annualized return of 6.09 per cent, compared with 7.42 per cent of the 60/31 benchmark. The Fund performance showed improvement in the two-year period ending June 2012 to 8.6 per cent, while the 60/31 benchmark performed 9.8 per cent based on the preliminary numbers. The equity had a return of 5.90 per cent compared with 6.96 per cent of the Morgan Stanley Capital International (MSCI) benchmark for the fiscal biennium ending 31 March 2012. Underweighting in Europe contributed positively to relative performance. However, not investing in Indonesia and Thailand were negative contributors in the country allocation of the internally managed equity portfolio. Stock selection in the consumer staples was the biggest negative contributor to performance, owing, inter alia, to not owning tobacco, which is prohibited. The selection effect for financials was also negative as the large capitalization stocks,

such as money-centre banks, underperformed, while relatively small stocks in which the Fund was underinvested outperformed during the financial crisis.

6. For the two-year period ended 31 March 2012, the Fund's bond portfolio returned 6.39 per cent, outperforming the Barclays Global Aggregate Bond Index return of 6.20 per cent by 19 basis points. During that period, overweight bond positions outside the core markets, such as Australia, Malaysia, Mexico, Norway, Poland and Sweden, were positive contributors to the Fund's return. The Fund held underweight bond positions in euro and Japanese yen. The underweight position in euro contributed to outperformance, while the underweight position in Japanese yen detracted from performance owing to the strong currency appreciation versus the United States dollar. The Fund allocation to the United States dollar and British pound underperformed versus the benchmark owing to a short duration exposure as interest rates dropped.

7. In the longer-term horizon, the Fund outperformed the 60/31 benchmark in the last 5, 7 and 10 years. In the last 10 years, the Fund had a nominal return of 7.3 per cent as at 31 March 2012, while the policy benchmark returned 6.6 per cent. The inflation-adjusted real rate of return for the last 10 years is 4.8 per cent, exceeding the 3.5 per cent of the long-term investment objective. Over the long term, through active management, the Fund will endeavour to outperform the policy benchmark with effective stock selection and periodic rebalancing of assets to maintain the long-term investment objectives of the Fund. The Investment Management Division continues to focus on balancing the risk and rewarding expectations by apportioning the Fund assets according to allocation goals that are appropriate for a long-term investment horizon.

8. In March 2011, the Investment Management Division deployed exchange-traded funds (ETFs) in an efficient, rapid and cost-effective way to rapidly adjust the asset allocation, which helped the Division to adjust the equity weight. The Fund was a net seller of equities by approximately $850 million during the third quarter of 2011, with the majority of the transactions executed in July, before the markets declined sharply in August. Without using ETFs, the Fund could not have sold that quantity of equities in such a timely manner. In this situation, indexation was a tactical tool to adjust exposure to the broad United States equity market in short order. Instead of replacing the entire North American equities portfolio with a passive index of securities, the objective was to purchase a combination of Standard and Poor's 500 Index large capitalization stocks and Russell 2000 Growth Index, pending the identification of individual securities to be held for the long term.

9. Once the Investment Management Division has established a trade execution team (recruitment in progress), together with the necessary infrastructure for straight through processing, the Division will be able to seek best execution, thereby saving transaction costs and possibly improving execution prices. The necessary information technology infrastructure has been acquired over the last two years (including Murex and Omgeo), which will facilitate processing securities, as well as supply accounting data. At the same time, IMD will be able to implement a tactical asset allocation strategy in a flexible and effective manner to further reduce investment costs.

10. As discussed with the Investments Committee in November 2011 and February 2012, and approved by the representative of the Secretary-General, the Investment Management Division invested in an ETF to track the MSCI All Country World Minimum Volatility Index. This investment was part of the Division's strategy to

deploy cash, which remained at a high level, into equities for the potential return enhancement while limiting downside risk in the face of highly volatile markets. The index is designed to minimize equity volatility within constraints to maintain broader market exposure through the use of an optimization process applied to large and medium capitalization equities across 45 developed and emerging markets. After successfully completing an initial purchase on 28 February 2012, the Division gradually implemented a total investment into the ETF of $183 million in four stages.

11. Amid an extremely volatile and uncertain market environment, the Investment Management Division made efforts to reduce the risks for the North American equity portfolio. The tracking error (deviation from underlying index returns) has actually been reduced to 1.34 per cent from approximately 2.4 per cent five years ago as a conscious risk reduction action. The standard deviation of returns for the portfolio is, in fact, lower than that of the index over the trailing three-year (16.08 per cent versus 16.49 per cent) and five-year (18.02 per cent versus 19.35 per cent) periods. The investment universe is very broad, yet only two Investment Officers (and 1 newly established P-3 Investment Officer under recruitment) cover approximately 700 stocks and approximately $14 billion of actively managed equity investment. As an industry rule of thumb, 100 securities per investment officer is the upper range of the coverage for actively managed stock portfolios and/or between $1 billion and $2 billion of assets under management per investment officer.

12. As recommended by the Fund's Investments Committee in 2006, and reinforced by the report prepared by Mercer Investment Consulting, Inc. in 2007 and two asset liability management studies conducted in 2008 and 2011, the Fund began its diversification into alternative investments, namely, private equity. The fundamental reason for investing in private equity is to improve the risk and reward characteristics of the Fund's investment portfolio. Investing in private equity offers the Fund the opportunity to generate higher absolute returns while improving portfolio diversification as private equity has historically had low correlation to the public equity and fixed income markets. The majority of evidence, both academic and empirical, indicates that private equity generally outperforms equities and bonds over time while offering an attractive risk profile.

13. In June 2010, the Investment Management Division hired a Senior Investment Officer for alternative investments. The Division also signed a contract with a non-discretionary private equity adviser to provide guidance regarding private equity managers. An Alternative Investment Officer, who will work closely with the Senior Investment Officer, is expected to be hired in the near future.

14. In June 2010, the Investment Management Division began its private equity investing. Between June 2010 and March 2012, the Fund committed approximately $530.0 million to seven private equity funds. The total adjusted market value of the United Nations Joint Staff Pension Fund's private equity investment as at 31 March 2012 was approximately $125.3 million. The balance of approximately $397.0 million represents unfunded commitments expected to be deployed in the next five years. As at 31 March 2012, the Fund's private equity allocation by market value stood at 0.30 per cent of the Fund's 31 March 2012 total market value. If all private equity commitments had been deployed as at 31 March 2012, the private equity allocation would have been 1.21 per cent of the Fund's 31 March 2012 total market value (net asset value of $43.1 billion).

15. There are several sectors of private equity that the Investment Management Division believes are of interest and will generate optimal rates of returns. The emerging markets offer a unique platform for sustainable growth investing as a result of unparalleled fundamental strengths. Lower-middle buyout markets offer an area of great efficiency and have a variety of appealing characteristics, including substantial deal flow, less competitive transactions, lower purchase multiples and significant value creation potential. The Division continues to explore opportunities in the secondary market. Secondary investments are particularly attractive as they allow for the rebalancing of portfolios and mitigation of the J-curve effect. Finally, distressed opportunities in the United States and Europe are plentiful. The Division is currently reviewing a number of private equity partnerships covering these sectors of interest.

16. In November 2010, the Investment Management Division began investing in commodities as a component of the real return strategies. The long-term strategic allocation to this strategy is expected to provide an effective means of hedging against inflation risk. The Division will gradually phase in commodities investments over a period of time, taking advantage of positive opportunities where possible. The index assigned to this strategy is Dow Jones-UBS Commodity Index. The Division will solely rely on external managers who employ active investing and dynamic risk management. It looks for actively managed commodities funds with long-only unleveraged strategies, and strong historical track records. As at 31 March 2012, the Fund had invested in three commodity funds, all externally managed. As at 31 March 2012, the Fund’s commodities investment had generated a 0.5 per cent return, compared to the -3.3 per cent loss in the benchmark.

17. During the fiscal biennium ending 31 March 2012, commercial real estate markets saw acceleration in investment activity. Real estate markets overall had bottomed or were close to bottom in 2010. Real estate valuation increased significantly from the second quarter of 2010 onwards, in particular in the core real estate space. New investment underwriting activity began in the first quarter of 2010, focusing on investments in Asia, including Australia and the United States. During the fiscal biennium ending 31 March 2012, the Investment Management Division made 14 real estate commitments totalling $743 million. Of those 14 investments, 6 were re-ups and 1 was a secondary issue. Additionally, the Fund initiated two new commitments in the United States energy infrastructure totalling another $100 million. Real estate investments totalled $1.39 billion as at 31 March 2010, or 3.64 per cent of the Fund. As at 31 March 2012, they totalled $1.97 billion, or 4.57 per cent of the Fund. There were no infrastructure investments as at 31 March 2010; as at 31 March 2012, infrastructure investments totalled $17.8 million, or .03 per cent of the Fund.

18. The Investment Management Division conducts qualitative market and security analysis for the portfolio holdings. Amid the volatile financial markets, the Division has been extensively utilizing RiskMetrics, recently implemented, as a decision support tool for monitoring absolute and relative downside risks. In particular, the Division has been cautious in its exposures to the financial sector, particularly in Europe, and has reduced already underweight positions further.

19. The implementation of RiskMetrics is proceeding with additional training for all investment officers in the various statistical applications used to tailor portfolios. RiskMetrics analysis will assist Investment Management Division staff in monitoring

and adjusting the risk exposures in the portfolio as a whole. It should be noted that RiskMetrics compares holdings in each portfolio with established benchmarks. For this reason, it cannot function fully until contracts for each benchmark service have been negotiated. So far, contracts have been executed with Dow Jones, Bloomberg and Russell Index, and there are contracts that remain to be negotiated with other data services.

20. Since the establishment of the Investment Management Service (now the Investment Management Division) in 1983, the Fund's assets have been managed largely on the basis of non-discretionary advisers. This advisory framework needs updating, owing to the inherent scope for conflict of interest and the gradual disappearance of businesses offering non-discretionary advice. More effective utilization of external advisers will be necessary to align with the structural changes in the financial markets/industry and incorporate the development of internal resources that the Division has added in recent years. The Division has conducted a reconfiguration of the advisory framework within the current budget and separated asset allocation from equity research. It will be advised by the specialized vendors and minimize the potential for conflict of interest by limiting the involvement of equity research providers in the investment decision process. Through the competitive bidding process with support of the Procurement Division and the Office of Legal Affairs, the contract of a global strategy adviser signed with Franklin Templeton Investments became effective in August 2011. Regarding the equity research providers, the contracts were placed with Argus Research for North America, BNP Paribas for Europe and Global Emerging Markets excluding Asia, and Nikko Asset Management for Asia Pacific including emerging Asia in 2011. The contract for fixed income was signed with BNP Paribas Asset Management effective in November 2010.

21. The Investment Management Division, in cooperation with the Procurement Division, has now completed two brokerage service requests for proposal. Altogether 29 brokerage requests have been approved and contract negotiations are proceeding. This request for proposal was initiated to address longstanding recommendations to document the Investment Management Division's relationship with brokers in formal legal agreements to satisfy the requirements of the Financial Rules and Regulations of the United Nations. The request for proposal for equity brokerage services also represents an opportunity for the Division to review and improve its broker selection and evaluation process and will result in more effective procedures and enhanced fairness and transparency. As a result of the financial evaluation to be conducted by the Procurement Division, the Division will benefit from a more competitive fee schedule and a reduction of the Division's trade execution costs.

22. A consultant hired by the Investment Management Division to propose procedures for implementing investment decisions regarding the selection of an investment manager and funds submitted his proposal. A new procedure, which was approved in January 2012, will assist the Division in conducting faster selection of external investment managers and investments in external funds. Contracts with the new master record-keeper and the developing market custodian are in place. A new request for proposal will have to be issued for developed market custody services, since contract negotiations with the selected bank were unsuccessful. The contract with the current developed market custodian has consequentially been extended for an additional year.

23. Several initiatives of the Fund had earlier stalled as the Investment Management Division dealt with procurement arrangements put in place in 2005. The Office of Internal Oversight Services contracts management audit (AS2009/801/02) was informative. After three years, a contract for another custodian is still pending. The best efforts of the Procurement Division and the Division to follow the procedures led to the mutual conclusion that change was necessary. Consequently, a consultant was engaged to determine the best practices in the global investment management industry. On the basis of the recommendations of the consultant, which were reviewed and enhanced following the 209th meeting of the Investments Committee held in New York on 9 May 2011, the procedures to properly distinguish between the procurement of services, on the one hand, and investment decisions, on the other hand, are being implemented to ensure effective investment management.

24. Agreements for equity securities brokerage services have been executed with seven firms. Contract negotiations have been completed with 12 brokers, and 16 contracts are in stages of drafting and negotiation. The legal effort for so many contracts is challenging because of the unique United Nations contractual requirements relating to dispute resolution mechanisms, indemnification, confidentiality, audits and liability insurance. This is owing to the unique legal rights and requirements of the United Nations. Since the financial crisis, many Member States have initiated governance reforms, some of which are in various stages of legislation, leading to regulatory uncertainty and complicating the negotiations.

III. Economic review

25. During the fiscal biennium ending 31 March 2012, the United States economy failed to achieve sustainable real economic growth above long-term trend levels some two years after the end of the “Great Recession” of 2008-2009. Real inflation adjusted United States gross domestic product (GDP) expanded at a 1.8 per cent annualized rate in 2011, compared with a 2.4 per cent rate in 2010 (United States Department of Commerce, Bureau of Economic Analysis). The historic trend growth rate of the United States economy over the 1985-2007 periods was within a 2.3-to-2.6 per cent range. The rate of growth in nominal GDP averaged 4.0 per cent during the year ending March 2012, but was also still modestly below long-term levels of 6 per cent. A confluence of global events in 2010 and 2011 served to create considerable dislocations in real economic activity, enhance market volatility and encourage aggressive risk aversion/pursuit behaviour among investors. Fiscal concerns in the European Union resurfaced numerous times over the 2010 and 2011 periods and had a negative impact on sovereign risks across the continent and the globe. The upheaval in the Middle East/North Africa political landscape in early 2011 and continuing global geopolitical uncertainty resulted in highly volatile trends in oil prices. Asia-related tragedies in 2011 also impacted a wide variety of industrial and technological supply chain activities. The expansion of the United States budget deficit and debt ceiling issues resulted in an historic downgrade in the rating of the United States Treasury debt in August 2011. Nevertheless, a wide variety of economic indicators, such as the Institute for Supply Management monthly survey data and the Conference Board Leading Economic Index, have confirmed that the economic recovery is proceeding, albeit at lower rates of growth than of comparable past recovery periods. While the employment situation continues to struggle from the recession, the housing market has shown signs of

gradual improvement. Such conditions have led to a fairly modest rebound in consumer confidence measures (University of Michigan survey data, Conference Board Leading Economic Index), which are still well below average historic levels. As a result of constrained end market demand and generally slack output capacity, core inflation trends as measured by the consumer and producer price indices (Department of Labour) have remained subdued and under control.

26. In spite of these considerable macroeconomic headwinds, the United States equity market (as represented by the Standard & Poor's 500 Index) managed to achieve a 22 per cent absolute gain over the fiscal biennium period (ending 31 March 2012) and has experienced a 113 per cent increase from the market cycle through levels of March 2009. Non-financial corporate earnings, cash flows and balance sheets continue to be in relatively strong condition, having recovered substantially from the recessionary period. Earnings growth and corporate profits have increased at a more modest rate, as the earnings cycle matures from the cyclical rebound experienced over the prior two years. In effect, over this period, corporate results have generally outperformed the underlying real economy. Equity valuations remained at historically attractive levels and below "fair value" measures (price-to-earnings basis) as a consequence of the uneven economic growth and the considerable uncertainties facing the investing environment. Should expected forward estimated earnings trends be confirmed, equities are potentially very attractively valued on through-the-cycle peak earnings. The reshaping of the global financial sector continues to unfold with still considerable unknown consequences. Increased regulation will translate into higher capital requirements and more difficult visibility for profitability. Yet, the health and the recovery of the financial system are critical variables to assuring the continuation of the economic recovery.

27. The Canadian economy has experienced a pattern similar to that of the United States, with more dependence on export trade activity (nearly one third of the total economy). According to Statistics Canada, the 2011 inflation-adjusted GDP increased 1.8 per cent on an annualized basis, compared with a 3.5 per cent rate of growth in 2010. A relatively strong currency and weakening foreign demand has largely been responsible for a fall-off in growth into the period end. As experienced in the United States (Canada's most significant trading partner), the post-recovery period has been challenged to transition to a more sustainable growth setting. Questions around global growth have led to volatility in worldwide commodity prices, which tend to have a significant impact on Canadian economic output and exports. A strong financial sector and disciplined fiscal policy has generally kept the Canadian economy in balance.

28. In Europe, during the fiscal year ending 31 March 2011, economic conditions showed some modest improvement overall, but the situation varied widely from country to country and growth expectations remained subdued. The period began with heightened concerns about sovereign debt levels, and throughout the year the European Union took steps to try to address those concerns. In May 2010, the European Union, in conjunction with the International Monetary Fund (IMF), approved a €110 billion support package for Greece. Two other lending programmes, the European Financial Stabilization Mechanism and the European Financial Stability Facility, were created, backed by €750 billion in commitments for countries in need of support through 2013. In November 2010, the European Union agreed to Ireland's request for financial assistance, creating a €85 billion package through a combination of IMF, European Financial Stability Facility and bilateral

loans. As the fiscal year drew to a close, the European Union expanded the lending capacity of the European Financial Stability Facility and created another 500 billion euro fund (eventually named the European Stability Mechanism) to replace the European Financial Stability Facility in 2013. However, these actions did little to calm the debt markets. The yields demanded by investors to fund a number of challenged economies stayed near record highs. Broader economic measures reflected a modest recovery in Europe during the fiscal year. In the euro zone, consumer confidence and composite Purchasing Managers Index data improved. Euro zone GDP reached 2 per cent on a year-over-year basis by the fourth quarter of 2010. In the United Kingdom, the initial report of GDP was 1.8 per cent on a year-over-year basis for the first quarter of 2011. Forecasts for GDP growth in the euro zone and the United Kingdom for the remainder of the year suggested that growth would remain near those moderate levels. High levels of unemployment and the impact of austerity measures were expected to constrain more rapid growth. Higher commodity prices, political change in a number of countries and renewed inflation were also concerns. All these factors contributed to volatile equity market performance throughout the year.

29. The fiscal year ending 31 March 2012 in Europe was characterized by increasing concerns over the spread of sovereign debt problems, the steps taken to contain those problems, and diminishing economic growth expectations. Early in the year, the European Central Bank was still concerned about the possibility of rising inflation, so it raised its benchmark interest rate by 25 basis points in April. In May, efforts to contain the sovereign debt crisis continued with the announcement among Portugal, the European Union and IMF of a €78 billion aid package. In July, the European Council agreed to expand the authority and the flexibility of the European Financial Stability Facility, and plans for a second aid package for Greece were outlined. Soon thereafter, the European Central Bank began purchasing sovereign bonds in the secondary market. By the fall, however, bond markets still reflected a great deal of uncertainty about whether sovereign defaults and a break-up of the euro could be avoided. The situation was further complicated by the uneven, but generally slowing, economic growth across the region, as austerity measures started to have an effect. Consensus expectations for 2012 growth in the euro zone turned negative. In response to the change in economic prospects, the European Central Bank made consecutive 25 basis point cuts to its benchmark interest rate in November and December. It took the additional step of offering unlimited three-year loans to banks, the long-term refinancing operation, while loosening collateral eligibility rules and reducing its reserve ratio. In December, European leaders also reached an agreement to create a new integrated fiscal compact, with certain automatic correction mechanisms for national budgets. In addition, in their search for a comprehensive solution, they agreed to accelerate the implementation of the European Stability Mechanism, to leverage the European Financial Stability Facility and to consider additional resources in the form of bilateral loans to IMF. In February 2012, European Union finance ministers and Greece agreed to an aid package of up to €130 billion, with the objective of reducing the country's public debt ratio to 120.5 per cent of GDP by 2020. Also in February, the European Central Bank conducted its second long-term refinancing operation, lending €529.5 billion to more than 800 borrowers. At the end of the first quarter, European finance ministers announced that the lending capacity of its support mechanisms, the European Stability Mechanism and the European Financial Stability Facility, would be raised to €700 billion from €500 billion. These measures helped prevent a

disorderly sovereign default in the first quarter of 2012, but government yields remained high and the outlook for growth in Europe remained weak. Equity markets in Europe reflected broader economic concerns and finished the period lower.

30. Until a 9.0 magnitude earthquake hit the east coast of the country on 11 March 2011 (the great east Japan earthquake), the Japanese economy remained on its steady recovery path through most of the fiscal year ending 31 March 2011. Prior to the earthquake, GDP showed sequential growth every quarter in calendar year 2010. By the end of February 2011, industrial production had expanded for four consecutive months, housing starts had increased nine months in a row and the unemployment rate had dropped to 4.6 per cent, the lowest rate in two years and a decline of 100 basis points from the peak in July 2009. Domestic capital expenditure rebounded year-on-year in the September quarter for the first time in 3.5 years, although the absolute level was still at 70 per cent of the peak before the global financial crisis. Despite the improving fundamentals, Moody’s cut the debt rating outlook for Japan to negative in February 2011 on concern that political gridlock would constrain efforts to tackle the biggest debt burden of any nation. The stronger yen remained a concern for corporate Japan through fiscal year ending 2011. The Japanese yen strengthened to 80.40 yen/United States dollar in October 2010, despite yen-selling intervention by the Bank of Japan for the first time in 6.5 years, and briefly hit 76.25 yen/United States dollar, the all-time high, in March 2011, which was countered by a coordinated yen-selling intervention by the Group of Seven countries. The yen appreciated 11.1 per cent against the United States dollar and 6.8 per cent against the euro during the fiscal year ending March 2011.

31. The great east Japan earthquake, followed by extremely destructive tsunami waves and radioactive leakage from the Tokyo Electric Power Company’s Fukushima Daiichi nuclear power plant, led to a sharp correction of the stock market and left the country with tremendous uncertainties. As a result, the economy and the corporations in Japan faced multiple headwinds for much of the following fiscal year ended March 2012. Japan suffered further from supply chain damage and disruption caused by the earthquake and tsunami, another supply chain disruption owing to the severe flooding in Thailand, and the appreciation of the yen against most major currencies. Real GDP dropped every quarter on a year-on-year basis in calendar year 2011 before rebounding 1.4 per cent year-on-year in the quarter ending March 2012. Both industrial production and exports declined on the year-on-year basis almost every month after the March earthquake, affected by the supply chain disruptions, weaker demand in overseas markets, and the stronger yen. The yen appreciated by 11 per cent against the United States dollar from the bottom of $85.49 in April to $76.91 at the end of December 2011, and 23 per cent against the euro during the same period, despite interventions by the Government and the Bank of Japan. Owing to stagnant exports and a surge in imports (increased liquefied natural gas import as a result of nuclear power plants shutdowns), Japan’s trade balance slipped to a deficit for the calendar year 2011 for the first time in 48 years, while corporate earnings were revised down. In order to fund the reconstruction of quake-damaged regions, and to support companies suffering from supply chain disruptions, the Government of Japan passed four supplementary budgets, amounting to JPY 20 trillion during the year, which led to benefits in areas including a consumption boom in the Tohoku region, improved demand for machinery and strong construction orders.

32. The investment environment took a turn for the better in the final quarter of the fiscal year ending March 2012, backed by the United States Federal Reserve's stance to extend its ultralow interest rate policy, additional monetary easing measures by the Bank of Japan announced in February 2012, further financing support by the European Central Bank, and a string of solid United States economic indicators. Against this backdrop, yen depreciation picked up the pace, fuelling expectations of better earnings for exporters. Despite a patchy macro environment, some economic data showed steady improvement in Japan's near-term economic prospects. Exports to the United States recovered from the supply chain disruption caused by the March 2011 earthquake, led by automobile exports supported by restocking demand and new model launches. Consumption spending improved, as evidenced by a three-month consecutive year-on-year growth in retail sales (+1.8, +3.4, +10.3 per cent, respectively, from January 2012 to March 2012), supported by a rebound in employment and sentiment recovery from post-earthquake frugality. Machinery orders remained strong and the April 2012 BOJ Tankan showed higher business confidence in the export segment and services industries. In the earthquake-affected regions, the economy benefited from large spending for reconstruction works, with consumption, capital expenditure and construction activities boosted substantially. This and the sharp depreciation of the yen from JPY 76.20 to JPY 83.73 against the United States dollar in the quarter ending March 2012, led to the consensus fiscal year 2012 earnings forecast upgrades starting in late February.

33. After avoiding recession in the fiscal year ending March 2010, despite the global financial crisis, Australia continued on a path of solid economic growth, as GDP rose sequentially every quarter for the fiscal year ending March 2011. In contrast to other developed economies, Australia continued a tightening of monetary policy during the fiscal year ending March 2011 with the Reserve Bank of Australia raising its benchmark cash lending rate by a total of 100 basis points to 4.75 per cent, though it kept interest rates on hold from May 2010 through March 2011 as a precautionary move in response to severe flooding in Queensland, the resulting weakness in consumer confidence and concern over the impact of monetary tightening in China on the demand for commodities, the devastating earthquake and nuclear crisis in Japan, and political unrest in the Middle East and North Africa. Employment grew by 319,000 jobs in the fiscal year ending March 2011, while the unemployment rate moved in a range of 4.9 per cent to 5.4 per cent as higher participation rates more than offset job creation. The consumer price index trended higher with a 3.3 per cent year-on-year increase in the quarter ending March 2011 compared to a 2.9 per cent year-on-year increase in the quarter ending March 2010, thus exceeding the Reserve Bank of Australia's acceptable inflation range of 2 per cent to 3 per cent and justifying the tighter monetary policy. The Australian dollar appreciated by 11.2 per cent, compared to the United States dollar in the fiscal year ending March 2011.

34. Although Australia began the fiscal year ending March 2012 with a tightening bias to monetary policy, a combination of negative domestic circumstances (Queensland floods, declining consumer confidence, rising unemployment, weak housing market, the strong Australian dollar) and global events, such as the Japan nuclear disaster, slowing growth in the United States and China, weakening demand for commodities and the European sovereign debt crisis, prompted the Reserve Bank of Australia to safeguard economic growth by holding interest rates steady and

eventually cutting the benchmark cash rate by 50 basis points to 4.25 per cent in the December 2011 quarter. GDP growth had decelerated to 1.2 per cent year-on-year in the March 2011 quarter following quarterly growth rates ranging from 2.2 per cent to 3.0 per cent year-on-year in calendar year 2010. For the fiscal year ended March 2012, quarterly GDP growth recovered to a range of 2.0 per cent to 4.3 per cent year-on-year. The unemployment rate ranged from 4.9 per cent to 5.3 per cent. The consumer price index peaked at a 3.6 per cent year-on-year increase in the June 2011 quarter before moderating to a 1.6 per cent year-on-year increase in the March 2012 quarter. The Australian dollar traded in a range of 0.9528 to 1.1021 against the United States dollar in the fiscal year ended March 2012.

35. Hong Kong, SAR experienced robust economic growth during the fiscal year ending March 2011, with quarterly GDP growth ranging from 6.7 per cent year-on-year to 7.6 per cent year-on-year supported by low interest rates, Government stimulus programmes and a recovery in exports. Exports continued a strong recovery since bottoming in October 2009, with positive monthly double digit growth ranging from 13 per cent to 36 per cent during the fiscal year ending March 2011. Following a 29 per cent increase in residential property prices in the fiscal year ending March 2011, the positive price momentum continued into fiscal year ending March 2012 with a further 20 per cent increase. This resulted in greater determination by the Hong Kong government to prevent an asset bubble and led to a few rounds of policy measures to dampen property price appreciation. In the fiscal year ended March 2012, Hong Kong, SAR experienced decelerating GDP growth on a quarterly basis, as world economic growth slowed, and China maintained a tight monetary policy to cool the property market and control inflation. GDP growth saw a peak of 7.6 per cent year-on-year in the March 2011 quarter, which then fell to 0.4 per cent year-on-year in the March 2012 quarter. Export growth mirrored the economic weakness declining from a high of 27.6 per cent year-on-year in January 2011 to -6.8 per cent year-on-year in March 2012. Retail sales growth remained fairly strong driven by mainland Chinese tourism and ranged between 8.5 per cent and 29.1 per cent during the fiscal year ending March 2012. Residential property prices entered a consolidation phase following a cumulative 77 per cent rise from early 2009 to June 2011 and declined by 6 per cent in the second half of calendar year 2011.

36. In Singapore, GDP in the fiscal year ending March 2011 showed very strong export-driven growth, with quarterly growth rates ranging from 9.1 per cent to 19.4 per cent year-on-year. Singapore public and private residential property prices rose by 11 per cent to 15 per cent to all-time highs, prompting the Government of Singapore to impose measures to cool the property. The consumer price index trended higher, rising from 3.2 per cent year-on-year in April 2010 to a 5 per cent increase in March 2011. With rising inflationary pressures, the Singapore Monetary Authority shifted to a policy of gradual appreciation of the Singapore dollar. In the fiscal year ending March 2012, Singapore’s small open economy was negatively impacted by slowing global economic growth, with quarterly GDP on a down trend from 9.1 per cent year-on-year in the March 2011 quarter to 1.6 per cent year-on-year in the March 2012 quarter. Non-oil domestic exports experienced weak single digit to negative growth during much of the fiscal year ending March 2012. Residential property price gains moderated to 3-4 per cent, as compared to double digits the prior year. The Singapore Monetary Authority maintained a policy of gradual appreciation of the Singapore dollar.

37. During the fiscal biennium ending March 2012, growth of emerging economies rebounded strongly in the beginning of the period and subsequently declined into a period of broad-based slowdown. In the early part of the period, emerging economies were able to sustain growth while putting a damper on inflation. The latter part of the fiscal biennium was characterized by a synchronized decline in growth owing to a global economic deterioration in the developed economies and deepening debt crisis in Europe. There were fears that a double-dip in the developed world would spread to the developing markets.

38. In emerging Asia, China remained the fastest growing economy, with a GDP growth of 10.4 per cent in 2010 and 9.2 per cent in 2011, mostly owing to a 4 trillion yuan stimulus package and a loose lending policy. Quarterly GDP growth dropped to 8.1 per cent in the first quarter of 2012, compared to 11.9 per cent in the first quarter of 2010. According to IMF, China would account for an estimated one third of the global growth for the next few years. Exports experienced a recovery in 2010 and 2011 following a significant contraction in 2008, but they have since started to decline. Strong economic recovery has put pressure on consumer prices and wage costs as inflation increased 3.3 per cent in 2010 and 5.4 per cent in 2011. The authorities have continued a restrictive stand in housing policies. While the inflation level is not considered extremely high for a high growth economy such as China's, it has surpassed the Government's 3 per cent target. In 2010, the People's Bank of China raised the benchmark one-year lending rate to 6.31 per cent and raised the reserve ratio to a record high of 20 per cent. In 2011, the Bank continued to raise the reserve ratio to 21.5 per cent before reverting to a loose monetary policy in the end of 2011 by lowering the ratio to 21 per cent in December. As growth slows, China's dilemma is how to counteract today's ebbing growth at the risk of not fully ridding itself of the excesses of its previous rounds of stimulus.

39. India has maintained a relatively high level of economic growth during the period under review. The GDP expanded 8.4 per cent in 2010 and 7.5 per cent in 2011, but growth moderated to 5.3 per cent in the first quarter of 2012. Headline inflation, measured by the consumer price index, rose to 12.1 per cent in 2010 and 8.9 per cent in 2011, as food and fuel prices soared. While the economy has achieved the second highest pace of growth in emerging Asia, it also has the highest inflation level in the region. Rapid growth and escalating inflation have prompted the Central Bank to increase interest rates from 3.25 per cent at the beginning of 2010 to 7.5 per cent by the end of the fiscal biennium. The country's twin deficits continued to worsen. The current account deficit deteriorated from -3.4 per cent in 2010 and -3.6 per cent in 2011, while the budget deficit deepened from -4.1 per cent to -7.2 per cent in the same period.

40. With heavy exposure to exports, the Republic of Korea recovered from a slump in the global demand during the prior fiscal biennium. GDP growth made a sharp recovery from 0.3 per cent in 2009 to 6.3 per cent in 2010. Growth has been moderated to 3.6 per cent in 2011 and 2.8 per cent by the first quarter of 2012. Growth was boosted by exports, namely to China, the country's biggest export market, and private consumption. Current account surplus widened to 3.4 per cent of GDP in 2010 and 2.7 per cent in 2011. The budget deficit turned to a surplus of 1.28 per cent of GDP by 2010. The economy recovered as global recovery spurred demand for electronics and automobiles. The won has since recovered substantially. While inflation rises to the high end of the Government's comfort level of 4 per cent, the

Bank of Korea raised benchmark interest rates by 125 basis points to 3.25 per cent by the end of 2011.

41. In Latin America, Brazil's economy also made a sharp recovery boosted by increased commodity exports and domestic consumption. While Brazil experienced the sharpest recovery in 2010, the country is also dealing with the fastest deceleration by the end of the period. After contracting 0.32 per cent in 2009, the GDP grew 7.59 per cent in 2010, followed by much subdued growth of 2.76 per cent by 2011. The cost of transportation and housing accelerated, while a tight labour market coupled with a low unemployment rate of 6 per cent contributed to a high inflation rate. The Monetary Policy Committee raised the Selic target rate for 200 basis points in 2010 to 10.75 per cent and lowered it to 9.75 per cent by the first quarter of 2012, as inflation stabilized.

42. After contracting 6.2 per cent in 2009, Mexico's GDP recovered to grow 5.5 per cent in 2010 and 3.9 per cent in 2011. The growth was driven by a rebound in United States manufacturing, which increased demand for Mexican exports. An increase in the agriculture and export sectors stimulated domestic demand. Manufacturing was also strong as conditions in the United States improved. Mexico is one of the few countries in emerging markets that has maintained a relatively low level of inflation and a stable monetary policy. Banco de Mexico kept its benchmark interest rate pretty much unchanged at 4.5 per cent in 2011. In Chile, the economy recovered to 6.1 per cent in both 2010 and 2011, as demand for the country's biggest export, copper, rebounded. The economy recovered to a positive growth level owing to record low lending rates of 0.5 per cent at the end of 2009 and improved global demand for commodities.

43. In Eastern Europe, the economic performance of most countries largely turned positive in 2010 from negative levels in 2009. The Russian Federation's economic recovery coincided with accommodating monetary policies and recoveries in commodities and oil prices, as oil and natural gas account for 70 per cent of the country's export revenues. GDP grew 4.3 per cent in both 2010 and 2011. The rate of inflation in Russia accelerated and was one of the highest in Eastern Europe, at 9.5 per cent in 2011. The Central Bank lowered interest rates to a record low of 7.75 per cent in 2010, but raised them back to 8.25 per cent in the second half of 2011, as inflation worsened. Turkey's economy rebounded strongly and GDP reached 9.2 per cent in 2010 and 8.5 per cent in 2011, driven by consumption and exports. The authorities in Turkey managed to control inflation and maintain a stable currency, while keeping the current deficit in check, by taking the controversial step of decreasing interest rates three times when the economy was growing strongly. As a counterbalance, the reserve ratio was lifted to curb excess credit growth. The country still has a massive current account deficit of 9 per cent GDP. Unlike other European countries, Poland never entered into a recession in 2009. The economy accelerated 3.9 per cent in 2010 and 4.3 per cent in 2011. Growth was driven by healthy private consumption and investments, while the country also benefited from strong economic conditions in Germany.

44. In South Africa, manufacturing has recovered, along with demand for exports and better output from the automotive and non-ferrous sectors. GDP expanded 2.9 per cent in 2010 and 3.2 per cent in 2011. Growing global export demand is boosting South African manufacturing output, including metals, which account for a large part of the economy. The employment level remained a significant challenge in

South Africa. The country’s current account deficit has improved to -1.5 per cent in 2010 and -3.6 per cent in 2011. Elsewhere in Africa, the world has witnessed a series of sociopolitical uprisings in Tunisia, Egypt, Libya and, most recently, the Syrian Arab Republic. While these developments could pave the way for sustainable economic growth in these countries in the long term, they could depress economic expansion and increase market volatility in the short to medium time period.

45. In summary, emerging market economies experienced a synchronized recovery in 2010 and 2011. Although a hard landing was averted in the period under review, emerging markets were not immune to the global slowdown. Growth has fallen to a moderated level since the end of 2011 and has deteriorated further in the first quarter of 2012. Emerging economies have been the major drivers and beneficiaries of the economic prosperity of the past decade. The IMF estimated that emerging markets will contribute as much as 80 per cent of the real global GDP growth in 2012. As a group, they will continue to grow at twice the pace of the developed economies. The coming year can be challenging, as growth becomes harder to sustain. While inflation is generally contained and monetary policies are accommodating in general, recession in developed countries could impact emerging market growth and the lingering credit crisis in Europe could dampen stock returns, as risk aversion and volatility persist. For additional information on emerging markets, please refer to the annex to the present report. Under the fiscal biennium under review, non-BRIC countries, such as Indonesia and Thailand, were the top performers within emerging market equities. The Fund’s existing tax restrictions in Indonesia and Thailand precluded it from investing in these attractive markets. The Investment Management Division implemented an alternative solution through United States dollar-denominated ETFs that had reduced the under-exposure risk of the Fund to these markets. The Division will continue to resolve or find alternatives to other investment restrictions in emerging markets to minimize deviations and risk to the benchmark that could hurt performance. Restrictions include insufficient trading liquidity in the smaller capitalization stocks and the ability to access local shares in the Russian Federation.

IV. Diversification

46. Diversification is the investment of assets among a variety of securities or among securities in a variety of markets with the goal of controlling risk in a portfolio without proportionately reducing the expected return. The Fund’s policy of broad diversification of its investments by currency, type of asset classes and geographical area continues to be the reliable method of improving the risk return profile of the Fund’s portfolio over long periods of time. Investments in only one asset class would have been detrimental to the performance of the Fund since diversification of risk would not have been achieved. The Fund is unique among major pension funds in its commitment to diversifying its portfolio on a fully global basis.

47. Exposure to equities was kept above the neutral 60 per cent long-term strategic guideline through 30 June 2011. In the third quarter of 2011, the Fund reduced its equities exposure in developed markets from 65.3 per cent to approximately 60.0 per cent and as of 30 September 2011 the allocation was further reduced to 58.7 per cent. At the end of fiscal year 2012, equities were at 60.6 per cent. Bonds were kept below the 31 per cent long-term strategic target guideline. On 1 April 2010, the bond portfolio began at 28.6 per cent of the portfolio and increased

slightly to 28.8 per cent at the end of March 2012. Exposure to real estate increased from 3.6 per cent of the portfolio on 1 April 2010 to 4.5 per cent at the end of March 2012. Cash and short-term investments started at 2.4 per cent on 1 April 2010, and ended the fiscal biennium on 31 March 2012 at 4.8 per cent. The investment portfolios are continuously being rebalanced following the quarterly meetings of the Investments Committee to achieve the tactical asset allocation decided by the Representative of the Secretary-General.

48. In addition to changing the proportions of the various asset classes in the portfolio, changes were made within asset classes to implement the Fund's investment strategy and to take advantage of new trends in economic cycles and financial markets. By the end of fiscal year 2012, exposure to North America equities was kept 0.9 per cent above the benchmark; exposure to European equities was reduced and kept below the policy benchmark because of concerns in the euro zone region, particularly in Greece, Spain, Italy, Ireland and Portugal. At the end of the fiscal year 2012, the Fund had no direct exposures to sovereign debt issued by these countries. Investments in emerging market equities were increased during the fiscal biennium. The Fund maintained a modest underweight in the financial sector and continued to limit exposures, particularly from the third quarter of 2007 onwards. At the end of the fiscal biennium, the Fund had maintained an overweight position in the information technology, industrials, materials and consumer discretionary sectors. This broad diversification of the Fund reduces risk across currencies and markets.

49. The fixed income portfolio invested in 16 different currencies, 38 per cent of which is in United States dollars and 62 per cent in non-United States dollar currencies. In terms of geographical diversification, as at 31 March 2012, the fixed income portfolio was invested in 30 countries and 5 supranational and regional institutions. The Fund has diversified its asset class mix by investing in alternative assets. It initiated two new commitments in the United States energy infrastructure totalling $100 million. As at 31 March 2012, infrastructure investments totalled $17.8 million, or .03 per cent of the Fund. On 30 June 2010, the Investment Management Division signed a contract with the African, Latin American and Caribbean Fund, a private equity fund that is managed by International Finance Corporation, which is a member of the World Bank Group. As at 31 March 2012, the private equity asset class had seven active partnerships across different strategies, totalling investments of $125.3 million, or 0.3 per cent of the Fund, thereby further diversifying the Fund's allocation in developing countries. In November 2010, the Fund invested $200 million in commodities, which has added to the asset class diversification. The Fund is focused on boosting performance by emphasizing opportunistic investments and diversifying by industry and geography.

50. In terms of geographical diversification, the proportion of the Fund invested in North America increased to 45.7 per cent in March 2012, from 43.1 per cent in March 2010. Investments in Europe decreased to 25.4 per cent from 29.3 per cent, while in Asia and the Pacific, the proportion of investments decreased slightly to 18.0 per cent, from 18.5 per cent, during the movements in currencies and interest rates. As at 31 March 2012, the Fund had a negative currency contribution of 1.8 per cent. Equity, bond and real estate investments denominated in currencies other than the United States dollar had a negative contribution to the performance from the currency effect, as the United States dollar appreciated against the major currencies. With geographic changes, currency diversification also changed. Diversification in terms of asset class, currency and region had a significant impact on the performance

of the Fund. Investing in only one currency other than the United States dollar would have had a negative impact on the performance, as the movements of the currencies against the dollar are not synchronized. There were several times when the total returns were negative in local currencies but positive in United States dollar terms. Areas of the Fund's investment are shown in the table below.

Table 1
Market value of Fund investments by country or area as at 31 March 2012[a]

Country/area	*Amount (in millions of United States dollars)*	*Percentage*
Australia	1 156.1	2.68
Austria	49.5	0.11
Belgium	55.2	0.13
Brazil	768.2	1.78
Canada	2 405.7	5.58
Chile	69.9	0.16
China	1 377.5	3.20
Colombia	6.8	0.02
Czech Republic	42.1	0.10
Denmark	69.3	0.16
Estonia	37.1	0.09
Europe region	193.7	0.45
Finland[b]	206.5	0.48
France	1 506.6	3.50
Germany	1 916.1	4.45
Guernsey, Channel Islands	25.8	0.06
Hungary	0.0	0.00
India	335.8	0.78
Indonesia	20.5	0.05
Ireland	40.3	0.09
Israel	52.1	0.12
Italy	77.4	0.18
Japan	2 867.4	6.65
Lithuania	34.1	0.08
Malaysia	658.0	1.53
Mexico	646.4	1.50
Netherlands	542.3	1.26
New Zealand	36.9	0.09
Norway	629.3	1.46
Poland	718.0	1.67
Republic of Korea	917.6	2.13
Russian Federation	371.7	0.86

Country/area	Amount (in millions of United States dollars)	Percentage
Singapore	383.5	0.89
South Africa	394.8	0.92
Spain	263.7	0.61
Sweden	716.4	1.66
Switzerland	903.4	2.10
Thailand	23.7	0.05
Turkey	82.1	0.19
United Kingdom of Great Britain and Northern Ireland	3 022.8	7.01
United States of America	17 286.1	40.12
Venezuela (Bolivarian Republic of)	25.3	0.06
Africa region	209.9	0.49
Asia region	239.0	0.55
Emerging markets region[c]	40.9	0.09
International region[c]	345.3	0.80
Latin America region	27.4	0.06
Middle East region	16.9	0.04
Multinational agencies region	1 275.8	2.96
Total Fund	**43 090.9**	**100.00**

[a] Country of investment is generally based on domicile of issuer. Convertible securities are classified by security into which they are convertible.
[b] Countries with investments in real estate with less than 0.01 per cent of the Total Fund.
[c] International refers to investments in international development institutions, such as the World Bank. Emerging markets and euro funds are invested in a number of countries under the particular area or currency.

Table 2
Fund investments in developed markets[a]

Country/area	Equities		Fixed income	
	31 March 2010	31 March 2012	31 March 2010	31 March 2012
Australia	✓	✓	✓	✓
Austria	–	–	–	✓
Belgium	✓	✓	–	✓
Canada	✓	✓	✓	✓
Denmark	✓	✓	✓	–
Finland	–	✓	–	✓
France	✓	✓	✓	✓
Germany	✓	✓	✓	✓
Greece	✓	–	–	–
Ireland	✓	✓	✓	✓
Israel	✓	✓	–	–

	Equities		*Fixed income*	
Country/area	*31 March 2010*	*31 March 2012*	*31 March 2010*	*31 March 2012*
Italy	✓	✓	–	–
Japan	✓	✓	✓	✓
Netherlands	✓	✓	✓	✓
New Zealand	✓	✓	✓	✓
Norway	✓	✓	✓	✓
Portugal	–	–	–	–
Singapore	✓	✓	✓	✓
Spain	✓	✓	✓	✓
Sweden	✓	✓	✓	✓
Switzerland	✓	✓	✓	–
United Kingdom of Great Britain and Northern Ireland	✓	✓	✓	✓
United States of America	✓	✓	✓	✓
Total	**20**	**20**	**16**	**17**

[a] Classification based on MSCI definition of developed markets.

Table 3
Fund equity and fixed income investments in emerging markets

	Equities[a]			*Fixed income*	
	31 March 2010	*31 March 2012*		*31 March 2010*	*31 March 2012*
Argentina	–	–	Angola	✓	✓
Bahrain	✓	✓	Argentina	✓	✓
Botswana	✓	✓	Azerbaijan	–	✓
Brazil	✓	–	Bosnia and Herzegovina	✓	✓
Bulgaria	–	–	Botswana	–	–
Chile	✓	✓	Brazil	✓	✓
China	✓	✓	Cayman Islands	✓	–
Colombia	✓	✓	Chile	✓	✓
Congo	–	–	China	✓	✓
Côte d’Ivoire	–	–	Colombia	–	–
Cyprus	–	–	Côte d’Ivoire	✓	–
Czech Republic	–	✓	Croatia	✓	✓
Egypt	✓	✓	Cyprus	–	–
Ghana	✓	✓	Czech Republic	✓	✓
Estonia	–	–	Democratic People’s Republic of Korea	✓	✓
Hungary	✓	–	Dominican Republic	✓	✓
India	✓	✓	Ecuador	✓	✓

	Equities[a]			*Fixed income*	
	31 March 2010	*31 March 2012*		*31 March 2010*	*31 March 2012*
Indonesia	–	✓	Egypt	✓	✓
Jordan	✓	–	El Salvador	✓	✓
Kazakhstan	–	–	Estonia	✓	✓
Kenya	✓	✓	Fiji	✓	–
Kuwait	✓	✓	Georgia	✓	✓
Kyrgyzstan	–	–	Ghana	✓	✓
Lebanon	✓	–	Grenada	✓	✓
Lithuania	–	–	Hungary	✓	✓
Malawi	✓	✓	India	–	✓
Malaysia	✓	✓	Indonesia	–	–
Marshall Islands	–	–	Iraq	✓	✓
Mauritius	✓	✓	Israel	–	–
Mexico	✓	✓	Ivory Coast	✓	✓
Morocco	✓	–	Jordan	✓	✓
Namibia	✓	✓	Kazakhstan	✓	✓
Nigeria	✓	✓	Lithuania	✓	✓
Oman	✓	✓	Malawi	✓	–
Pakistan	–	–	Malaysia	✓	✓
Palestine	✓	✓	Mauritius	–	–
Panama	–	–	Mexico	✓	✓
Peru	–	–	Moldova	–	–
Philippines	–	–	Montenegro	–	✓
Poland	✓	–	Morocco	–	–
Qatar	✓	–	Nepal	–	–
Republic of Korea	✓	✓	Nigeria	✓	✓
Russian Federation	✓	✓	Oman	–	–
Rwanda	–	✓	Peru	–	–
Saudi Arabia	✓	✓	Philippines	✓	–
Senegal	✓	✓	Poland	✓	✓
South Africa	✓	✓	Qatar	✓	–
Sri Lanka	–	–	Republic of Korea	✓	–
Tanzania	–	✓	Russian Federation	✓	✓
Thailand	–	✓	Serbia	–	✓
Tunisia	✓	✓	Seychelles	–	✓
Turkey	✓	✓	South Africa	✓	✓
Turkmenistan	–	–	The former Yugoslav Republic of Macedonia	✓	✓
Ukraine	–	–	Trinidad and Tobago	✓	✓
United Arab Emirates	✓	✓	Turkey	✓	✓

	Equities[a]	
	31 March 2010	*31 March 2012*
Venezuela (Bolivarian Republic of)	–	–
Viet Nam	–	–
Zambia	✓	✓
Zimbabwe	✓	✓
Total	**35**	**34**

	Fixed income	
	31 March 2010	*31 March 2012*
Tunisia	–	✓
Uganda	–	✓
Ukraine	✓	✓
Uruguay	✓	✓
Venezuela (Bolivarian Republic of)	✓	✓
Viet Nam	–	–
Zambia	✓	–
Total	**42**	**43**

[a] On 30 June 2010, the Investment Management Division signed a contract with the African, Latin American and Caribbean Fund, a private equity fund that is managed by International Finance Corporation Asset Management Company. The Investment Management Division is seeking more opportunities to invest in the emerging markets.

Note: The classification used in this table to identify countries as “emerging markets” follows the established conventions of financial markets.

V. Investment returns

A. Total return

51. The market value of the Fund’s assets increased from $38,348 million as at 31 March 2010 to $43,091 million as at 31 March 2012, an increase of $4,743 million, or approximately 9.0 per cent. The total investment return was 11.9 per cent for the fiscal year ending 31 March 2011 and 0.6 per cent for the fiscal year ending 31 March 2012. After adjustment by the United States consumer price index, these returns represent real rates of return of 8.9 per cent and -2.0 per cent, respectively.

52. 2011 was a tumultuous year in the financial markets, with financial authorities and investors focused on ways that the euro zone crisis might be resolved. An all time record fund balance of over $44 billion was reached in April 2011. Declines were experienced in following months as markets reacted negatively to the euro zone debt crisis. For the fiscal year 2011, United States equity returned 14.9 per cent in 2011 and 6.7 per cent in 2012. Non-United States equity returned 13.1 per cent in 2011 and -7.3 per cent in 2012. Total equities returned -1.2 per cent in 2012 and 13.8 per cent in 2011. Equities represented 67.1 per cent and 60.6 per cent of the total Fund in 2011 and 2012, respectively. United States bonds showed returns of 5.4 per cent in 2011 and 6.9 per cent in 2012. Non-United States bonds returned 10.3 per cent in 2011 and 3.1 per cent in 2012. Real estate performance was 12.5 per cent in 2011 and 10.8 per cent in 2012. Short-term investments returned 1.3 per cent in 2011 and 1.2 per cent in 2012.

53. The rates of return shown in the present report have been calculated by an outside master record-keeper, using a generally accepted method that was elaborated in the report on the management of the investments submitted to the Board at its

thirty-fourth session.[1] The calculation includes actual income received from dividends and interest, as well as realized capital gains and losses. It also takes into account changes in the market value of the investments and the timing of cash flows.

B. Comparisons of investment returns

54. The Fund continues to be geographically the most widely diversified pension fund that maintains its accounts in the United States but has liabilities in several other currencies. At the end of the period under review, the Fund had more than 50 per cent of its assets in currencies other than the United States dollar.

55. During the fiscal year ending 31 March 2011, the Fund returned 11.9 per cent and underperformed the policy benchmark by 0.5 per cent. The policy benchmark is comprised of 60 per cent MSCI All Country World Index, 31 per cent Barclays Capital Global Aggregate Bond Index, 6 per cent National Council of Real Estate Investment Fiduciaries (NCREIF) Open-End Diversified Core Equity Index and 3 per cent of the Merrill Lynch 91-day Treasury bill. For the fiscal year ending 31 March 2012, the Fund underperformed the benchmark with the return of -2.1 per cent. Over the last 15 years, the Fund achieved an annualized return of 6.9 per cent, outperforming 6.2 per cent return of the 60/31 benchmark.

56. Over the last 15 years, the MSCI All Country Index had a total annualized return of 5.6 per cent, compared with the annualized return of 6.3 per cent achieved by the Fund’s equity asset class. During the same period, Barclays Capital Global Aggregate Index had annualized returns of 6.1 per cent compared to the annualized return of 6.6 per cent achieved by the Fund’s bond portfolio. As at 31 March 2012, the Fund had investments in 41 countries, 7 international and regional institutions and 23 currencies.

57. **Risk management**. The diversification of the Fund and its conservative practice of investing in higher quality companies have continued to protect the Fund. The Investment Management Division has been extensively utilizing the newly implemented RiskMetrics system as a decision support tool for monitoring absolute and relative downside risks.

58. **Infrastructure improvements**. In January 2010, the Investment Management Division inaugurated the use of an electronic trade order management system and integrated it with the secure Society for Worldwide Interbank Financial Telecommunication (SWIFT) financial telecommunications system, which went live at the time of the last Pension Board meeting. These systemic improvements have created an infrastructure that will benefit the Fund for years to come, reducing costs and enhancing the security of funds transfers. With an improved infrastructure, the Fund is now a safer client, meeting the highest industry standards.

59. Since 2010, the Investment Management Division Risk Management and Compliance Section has instituted several key policies that confirm the Division’s commitment to the highest standards of ethics, good governance, competence and integrity. The personal securities policy provides guidance for personal investment activity that has the potential to create actual or apparent conflicts of interest between Division staff and the investment management of the Fund. The gift and

[1] JSPB/34/R.10.

hospitality policy seeks to avoid situations in which personal interests could conflict with, or appear to conflict with, the interests of the Division or the Fund. In view of the higher standard required for officials carrying out functions in sensitive areas, the Division has adopted a zero-tolerance rule for the receipt of gifts from any entity having or seeking to have a business relationship with it. The mandatory leave policy requires that Division staff in a position of fiduciary duties take a period of annual leave that is at least 10 consecutive working days in duration. The reason for this control is that certain types of fraud can sometimes come to light when the person responsible is not around to conceal it. The communication practices and document retention policy defines proper communication practices, including social networking, and the retention of official documentation so as to ensure the security and integrity of the Fund.

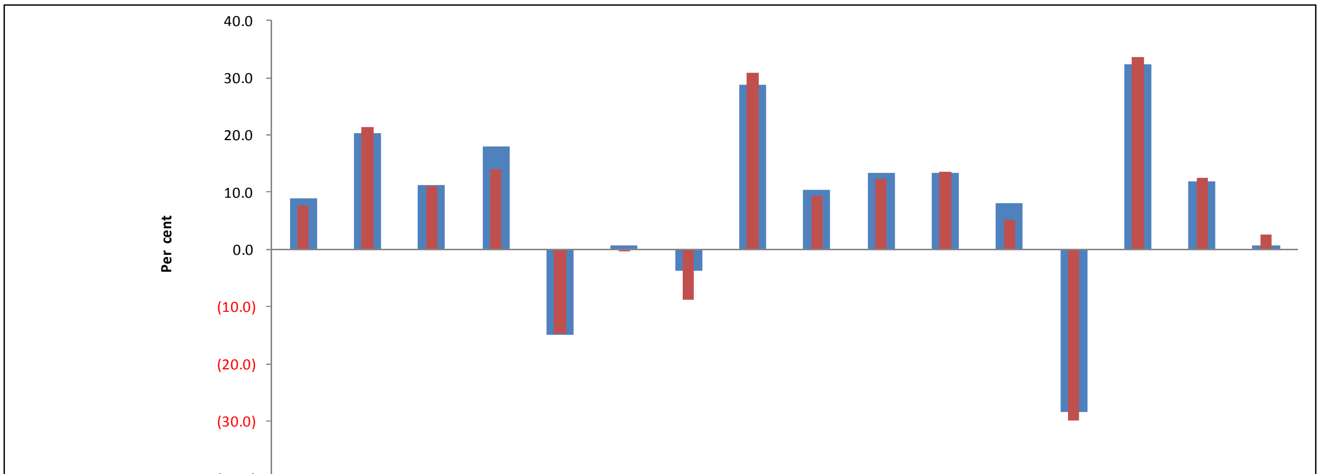
60. **Multiple custodians and independent master record-keeper**. The independent master record-keeper contract was signed with Northern Trust effective 1 June 2012. The contract for global custodial services for emerging and frontier markets was signed with Citibank, N. A. effective 2 July 2012. As of the writing of this report, account openings and conversion of assets from Northern Trust to Citibank, N. A. were under way. The contract negotiation with another bank failed and a new request for proposal for global custody services for developed markets is under way. This new multiple custodians and independent master record-keeper model was put in place in order to minimize risks as a result of experience gained in the 2008 economic crisis that affected financial institutions worldwide.

61. **Global tax advisory services**. The Fund is currently in the process of hiring a global tax adviser to assist in its tax reclamation exercise. Efforts to establish tax reclaims in jurisdictions where there are no existing tax reclamation procedures have been arduous and time-consuming for the Fund's current human resources. The global tax adviser will assist the Fund in this endeavour and will conduct a comprehensive review of all tax receivables as to their recoverability. They will also assist the Fund in restructuring the Fund's limited partnership agreements with the private real estate and private equity funds to ensure tax exemption.

C. Long-term rates of return

62. From 1 April 2010 to 31 March 2012, the Fund encompassed volatile markets in the history of the United Nations Joint Staff Pension Fund. Historically, equity markets had strong positive returns from 1993 to 2000, but declined sharply in the following three consecutive years. From 2004 to 2008, the equity markets had positive returns. Since then, the markets have experienced volatility. For the past two fiscal years 2011 and 2012, the Fund's returns were 11.9 per cent and 0.6 per cent, underperforming the policy benchmark by 0.5 per cent and 2.07 per cent, respectively.

Figure I
United Nations Joint Staff Pension Fund long-term rates of return

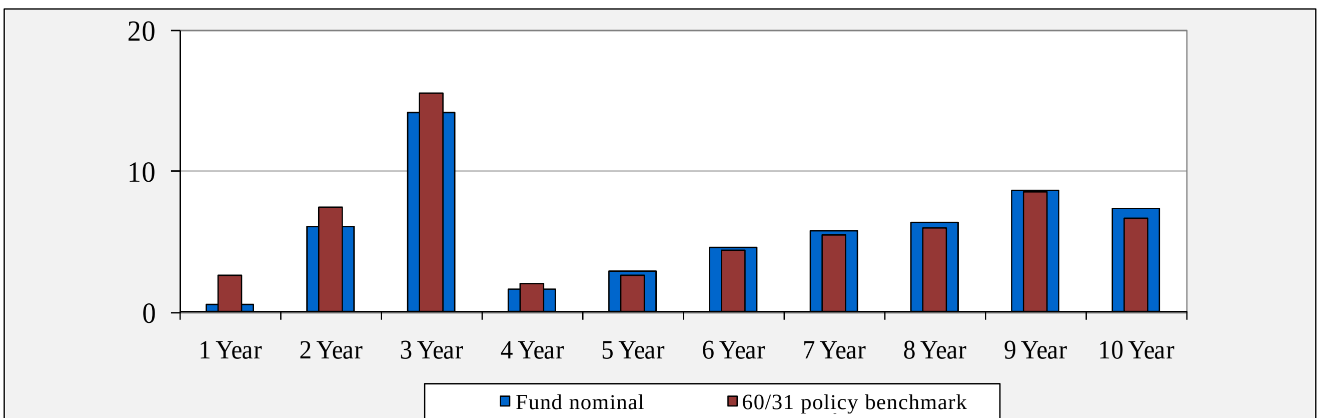


	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
UNJSPF Annual Return (FY)	8.9	20.4	11.3	18.0	-15.0	0.7	-3.8	28.7	10.4	13.3	13.4	8.1	-28.3	32.2	11.9	0.6
UN Policy Benchmark Return (FY)	7.7	21.4	11.1	14.0	-14.8	-0.4	-8.9	30.9	9.4	12.3	13.6	5.2	-29.8	33.7	12.4	2.7

Abbreviation: FY, fiscal year.

63. As the chart following illustrates, the Fund exceeded the policy benchmark in 6 out of the 10-year rolling periods through 31 March 2012. The annualized total rate of return over the 50-year period for which data was available was 8.2 per cent, representing a real rate of return of 3.8 per cent after adjustment by the United States consumer price index.

Figure II
Rolling year performance through 31 March 2012



United Nations Joint Staff Pension Fund nominal return exceeds the 60/31 policy benchmark in 6 out of 10 periods

Table 4

Total Fund: annual total rate of return

(percentages based on market value 31 March 1962-31 March 2012)

	Equities				*Bonds*						
Year	*United States*	*Outside United States*	*Total*	*MSCI World Index*[a]	*United States*	*Outside United States*	*Total*[c]	*SBGWBI Bond Index*[d]	*Real estate*	*Short term*	*Total Fund*
1961	18.8	37.8	19.4	–	–	–	8.0	–	–	–	12.7
1962	12.37	0.87	11.65	–	–	–	3.91	–	–	–	6.61
1963	(0.60)	(16.34)	(0.59)	–	–	–	5.49	–	–	–	4.07
1964	18.18	7.48	17.45	–	–	–	2.12	–	–	–	8.24
1965	10.89	8.30	10.44	–	–	–	4.41	–	–	–	6.98
1966	4.53	3.22	4.31	–	–	–	(2.14)	–	–	–	0.66
1967	11.76	(2.32)	8.98	–	–	–	3.97	–	–	–	7.91
1968	2.86	28.30	7.46	–	–	–	(4.89)	–	–	–	1.60
1969	13.35	20.07	14.64	–	–	–	2.66	–	–	–	9.09
1970	(5.10)	(2.18)	(4.49)	–	–	–	1.41	–	–	–	(1.75)
1971	13.94	3.31	11.46	9.28	–	–	14.10	–	–	8.73	13.53
1972	14.13	34.30	18.33	16.92	–	–	9.41	–	11.58	7.15	16.98
1973	5.85	20.77	9.49	13.47	–	–	7.40	–	4.78	5.92	8.55
1974	(16.70)	(21.48)	(18.10)	(16.40)	–	–	1.92	–	10.18	10.70	(13.55)
1975	(11.20)	11.60	(5.16)	(6.09)	6.20	14.63	6.55	–	(1.03)	12.35	0.18
1976	16.37	10.76	14.58	15.59	11.22	1.91	10.02	–	5.16	7.70	13.16
1977	(8.25)	(3.75)	(6.62)	(0.95)	10.40	15.20	11.06	–	3.70	5.20	(0.26)
1978	(5.60)	20.31	4.16	6.11	5.62	24.39	8.72	–	8.25	7.67	6.12
1979	22.36	21.67	22.07	21.27	4.70	12.50	6.63	8.04	16.86	8.56	15.07
1980	10.89	(10.31)	1.08	(0.18)	(9.53)	(4.64)	(7.63)	(13.16)	17.42	11.75	(0.39)
1981	43.19	39.60	41.45	34.80	14.99	9.45	12.51	20.38	14.71	15.76	26.60
1982	(17.88)	(19.64)	(18.77)	(15.00)	11.08	0.40	6.20	(0.69)	17.51	17.95	(7.85)
1983	40.91	23.60	33.55	31.60	32.53	14.54	24.89	20.54	7.07	12.76	27.05
1984	5.08	32.46	15.66	17.30	5.46	12.42	8.67	8.20	13.33	13.07	13.01
1985	20.75	(6.82)	9.54	7.20	17.86	(8.22)	4.53	5.50	13.47	3.62	8.09
1986	34.95	58.48	43.44	56.02	54.30	50.33	51.21	48.70	10.75	6.95	41.52

	Equities				Bonds						
Year	*United States*	*Outside United States*	*Total*	*MSCI World Index*[a]	*United States*	*Outside United States*	*Total*[c]	*CGWGBI Bond Index*[d]	*Real estate*	*Short term*	*Total Fund*
1987	21.63	43.88	30.01	43.22	9.14	32.63	22.59	17.42	12.67	11.97	24.69
1988	(12.18)	2.15	(4.74)	5.81	3.26	20.24	12.65	11.42	9.19	7.67	3.10
1989	13.20	10.00	11.30	13.56	2.10	(5.50)	(2.40)	0.36	8.20	10.40	5.90
1990	21.54	13.21	16.57	(2.30)	10.47	2.93	6.20	3.12	12.31	9.72	11.56
1991	8.9	1.2	4.5	3.2	12.5	17.4	15.0	16.2	5.1	13.1	8.9
1992	11.3	0.1	4.9	(0.5)	13.7	14.0	14.0	14.0	(4.1)	6.5	7.6
1993	17.3	6.7	11.2	12.7	15.9	17.7	16.9	19.0	(6.6)	7.5	11.6
1994	(2.7)	24.4	12.4	14.0	3.4	10.1	7.7	6.8	0.5	3.0	9.7
1995	11.1	6.5	8.1	9.8	2.9	18.6	12.9	12.1	0.0	5.0	8.7
1996	30.2	15.1	20.5	20.6	8.0	3.3	5.1	5.3	10.4	4.1	14.6
1997	18.9	7.2	11.6	9.8	6.2	2.5	3.6	1.2	8.6	4.4	8.9
1998	45.4	15.4	27.3	32.4	10.6	4.3	7.0	5.4	18.9	7.0	20.4
1999	18.4	9.7	13.9	13.0	4.8	9.0	6.5	10.0	4.8	9.9	11.3
2000	17.5	39.9	28.5	21.6	3.1	(5.7)	(2.5)	(0.3)	11.7	3.0	18.0
2001	(17.2)	(30.3)	(24.2)	(25.1)	13.0	(4.2)	2.0	(1.7)	11.3	4.2	(15.0)
2002	2.8	(6.1)	(1.3)	(4.2)	4.9	2.1	3.1	0.5	8.4	3.5	0.7
2003	(23.9)	(21.7)	(23.1)	(24.2)	15.9	34.9	28.4	25.2	8.5	11.1	(3.8)
2004	29.3	56.5	42.5	43.9	6.8	19.4	15.7	13.5	23.9	8.1	28.7
2005	6.3	16.9	11.8	11.1	1.2	10.5	7.8	5.5	15.8	2.5	10.4
2006	13.1	28.8	21.3	18.6	2.4	(4.4)	(2.8)	(2.0)	30.5	2.9	13.3
2006				20.3[b] MSCI ACWI				(2.6)[e] BCGA			12.3 60/31[f]
2007	9.4	20.6	15.7	16.4 MSCI ACWI	7.1	9.4	8.4	8.1 BCGA	24.0	5.5	13.4 60/31[f]
2008	(0.6)	5.9	3.4	(0.7) MSCI ACWI	8.3	18.4	15.1	15.3 BCGA	9.0	8.3	8.1 60/31[f]
2009	(34.6)	(45.1)	(41.0)	(42.7) MSCI ACWI	(1.4)	(12.6)	(8.6)	(4.9) BCGA	(22.9)	3.9	(28.3) 60/31[f]

	Equities				Bonds						
Year	*United States*	*Outside United States*	*Total*	*MSCI World Index*[a]	*United States*	*Outside United States*	*Total*[c]	*CGWGBI Bond Index*[d]	*Real estate*	*Short term*	*Total Fund*
2010	42.6	62.2	54.1	56.3 MSCI ACWI	5.9	16.7	10.8	10.2 BCGA	(17.4)	(2.7)	32.2 60/31[f]
2011	14.9	13.1	13.8	14.6 MSCI ACWI	5.4	10.3	8.2	7.1 BCGA	12.5	1.3	11.9 60/31[f]
2012	6.7	(7.3)	(1.2)	(0.2) MSCI ACWI	6.9	3.1	4.6	5.3 BCGA	10.8	1.2	0.6 60/31[f]

[a] MSCI Indices provide exhaustive equity market coverage for over 70 countries in the developed, emerging and frontier markets, applying a consistent index construction and maintenance methodology.

[b] MSCI All Country World Index (MSCI ACWI) consists of 45 country indices comprising 24 developed and 21 emerging market country indices.

[c] The proportion of bonds held outside the United States was not significant prior to 1975.

[d] Citigroup World Government Bond Index (CGWGBI) consists of 18 major bond markets; the name Salomon Smith Barney World Government Bond Index (SBGWBI) was changed to the name Citigroup World Government Bond Index (CGWBI).

[e] Barclays Capital Global Aggregate (BCGA) — effective 3 November 2008; bond index name change from Lehman Brothers Global Aggregate to Barclays Capital Global Aggregate (BCGA).

[f] The 60/31 policy benchmark is composed of 60 per cent MSCI All Country World Index, 31 per cent Barclays Capital Global Aggregate Index, 6 per cent NCREIF Open Ended Diversified Core Equity Index, and 3 per cent 91-day treasury bill.

Table 5
Total Fund: annual rates of return based on market value
(Percentages for selected periods ending 31 March 2012)

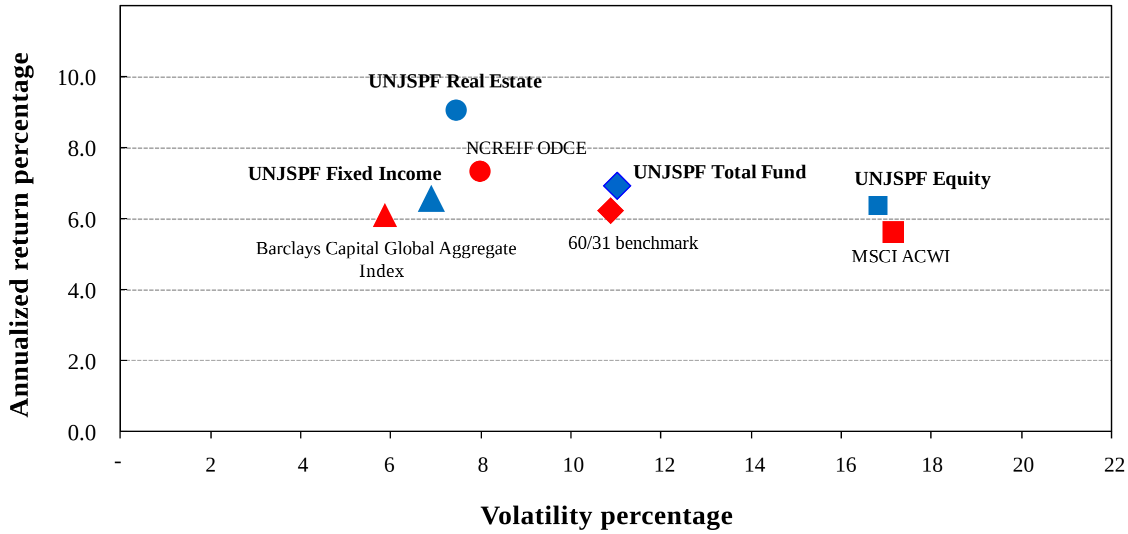
	2012	*2011*	*2010*	*2009*	*2008*	*5 years through 2012*	*10 years through 2012*	*15 years through 2012*
United States equities	6.7	14.9	42.6	-34.6	-0.6	4.2		
Equities outside United States	-7.3	13.1	62.2	-45.1	3.9	6.7		
Total equities	**-1.2**	**13.8**	**54.1**	**-41.0**	**3.4**	**4.4**	**6.1**	**7.3**
United States bonds	6.9	5.4	5.9	-1.4	8.3	5.0		
Bonds outside United States	3.1	10.3	16.7	-12.6	18.4	7.8		
Total bonds	**4.6**	**8.2**	**10.8**	**-8.6**	**15.1**	**6.5**	**8.2**	**6.5**
Real estate related	10.8	12.5	-17.4	-22.9	9.0	-0.6	7.9	8.9
Short-term investments	1.2	1.3	-2.7	3.9	8.3	3.2	4.4	
Total Fund in United States dollars	**0.6**	**11.9**	**32.2**	**-28.3**	**8.1**	**5.4**	**7.3**	**7.5**
Inflation-adjusted return (based on United States consumer price index)	**-2.1**	**9.2**	**29.2**	**-28.1**	**4.0**	**0.7**	**4.8**	**4.5**

D. Risk return profile

64. Over the past 15 years, the Fund's average annual return of 6.9 per cent was higher than the benchmark's return of 6.2 per cent. The Fund's volatility of 11.0 per cent was slightly higher than that of the benchmark's 10.8 per cent volatility. The Fund had a well-diversified portfolio that included all major asset classes and securities.

65. Within asset classes, the Fund's equity portfolio return of 6.4 per cent outperformed the MSCI AC World Index return of 5.6 per cent, and the Fund's equity portfolio had a much better risk profile (16.8 per cent), compared to the MSCI AC World Index (17.2 per cent). The bond portfolio, with 15-year average return of 6.6 per cent, outperformed the Barclays Capital Global Aggregate Index return of 6.1 per cent, but had higher volatility (6.9 per cent) compared to the Barclays Capital Global Aggregate Index (5.9 per cent).

Figure II
United Nations Joint Staff Pension Fund 15-year risk/return profile versus indices through 31 March 2012



Abbreviation: ODCE, Open-End Diversified Core.

VI. Investments in developing countries

66. The Fund continues to make efforts to invest in developing countries to the extent that this has been consistent with the interests of participants and beneficiaries. Direct and indirect investments in developing countries amounted to $5.9 billion on 31 March 2012, an increase of approximately 23 per cent from $4.8 billion at cost on 31 March 2010. The increases were in the developing Asia, Africa, Europe and Latin America regions.

67. The Investment Management Division continues to explore possible investment opportunities in developing countries. Investment visits were undertaken in Africa, Asia, Latin America and Eastern Europe during the period under review. The Fund continues to review its exposure in these markets in search of suitable investment instruments while taking into account the overall investment criteria and strategy of the Fund.

Table 6
Development-related investments: book value as at 31 March 2010 and 31 March 2012
(in thousands of United States dollars)

	Book value		*Market value*		*Two-year annualized return (percentage)*
	Total 2010	*Total 2012*	*Total 2010*	*Total 2012*	
Africa					
Egypt	14 799	0	17 226	0	n/a[a]
South Africa	242 903	293 376	350 483	394 822	n/a[a]
Regional funds	110 044	131 295	121 707	118 606	(1.28)
Subtotal	**367 746**	**424 671**	**489 416**	**513 428**	
Development institutions	79 203	79 203	85 912	91 299	
Total Africa	**446 949**	**503 874**	**575 328**	**604 727**	
Asia					
China	872 935	1 130 676	1 140 989	1 377 518	n/a[a]
India	180 663	287 467	302 472	335 822	n/a[a]
Malaysia	513 681	563 941	562 907	657 997	n/a[a]
Qatar	10 002	0	10 462	0	n/a[a]
Republic of Korea	653 007	685 006	795 906	917 559	n/a[a]
Singapore	180 568	334 497	253 741	383 485	
Regional funds	261 624	117 263	216 141	202 198	
Subtotal	**2 672 480**	**3 118 850**	**3 282 618**	**3 874 579**	
Development institutions	55 118	30 173	58 739	36 775	
Total Asia	**2 727 598**	**3 149 023**	**3 341 357**	**3 911 354**	
Europe					
Cyprus	0	0	0	0	n/a[a]
Turkey	73 312	52 691	110 793	82 076	(1.25)
Regional funds	0	0	0	0	n/a[a]
Subtotal	**73 312**	**52 691**	**110 793**	**82 076**	
Development institutions	0	297 804	0	331 951	
Total Europe	**73 312**	**350 495**	**110 793**	**414 027**	
Latin America					
Argentina	0	0	0	0	n/a[a]
Brazil	276 823	590 677	571 686	768 176	n/a[a]
Chile	20 056	47 692	45 499	69 880	n/a[a]
Colombia	2 951	2 951	4 830	6 832	21.72
Mexico	444 034	472 501	593 348	646 448	n/a[a]
Venezuela (Bolivarian Republic of)	19 965	19 965	24 023	25 316	n/a[a]
Regional funds	0	0	0	0	
Subtotal	**763 829**	**1 133 786**	**1 239 386**	**1 516 652**	

	Book value		Market value		Two-year annualized return (percentage)
	Total 2010	*Total 2012*	*Total 2010*	*Total 2012*	
Development institutions	136 316	98 587	141 999	107 778	
Total Latin America	**900 145**	**1 232 373**	**1 381 385**	**1 624 430**	
Other development funds					
International Bank for Reconstruction and Development	318 025	526 598	351 964	597 238	n/a[a]
International Finance Commission		104 177		106 761	n/a[a]
International Finance Facility for Immunization		24 406		27 120	n/a[a]
European Investment Bank	315 002	[b]	323 446	[b]	
Fiduciary Emerging Market Bond Fund	21 600	26 902	36 951	40 870	24.39
Emerging Market Middle East Fund	19 746	15 145	15 793	16 871	3.36
Emerging Market Investors Fund	0	0	0	0	
Total other development funds	**674 373**	**697 228**	**728 154**	**788 860**	
Grand total	**4 822 377**	**5 932 993**	**6 137 017**	**7 343 398**	

[a] n/a denotes cases in which the securities are not held at the beginning/ending period in a custom region and the returns are not available from the independent master record-keeper.
[b] 2012 figures are provided under “Europe, development institutions”, above.

VII. Conclusion

68. The United Nations Joint Staff Pension Fund, like all other Fund managers, has been experiencing turbulence related to the global financial crisis of unprecedented volatility of the past years. It is achieving the long-term investments objective both in the actuarial requirement of 3.5 per cent real return and the relative performance against the policy benchmarks in the last 10 years. In seeking potential enhancement of the investment return and further diversification, the Investment Management Division has started in alternative investments, primarily in private equity in 2010. Because of stronger growth potentials, the further diversification opportunities in the emerging markets and the frontier markets are being carefully reviewed. The utilization of ETFs is effective in quick and low-cost implementation of the tactical asset allocation. The newly established trade execution team (currently under recruitment), supported by the technological infrastructure improvements, will be helpful in achieving best execution and lower transaction costs. RiskMetrics also has been implemented, and the portfolio risks are monitored in a comprehensive and systematic manner. Despite the choppy and trendless markets that the Fund may be facing during this phase of the global economic recovery, with the support of the additional staff and investment tools added during the biennium, the Investment Management Division will be in a position to safeguard the Fund and could build a stronger foundation for future years to come.

69. The General Assembly may wish to take note of this report and the related report on emerging market investments as reflected in the annex to the present report.

Annex

Emerging markets: an overview of the last decade

1. The United Nations Joint Staff Pension Fund investments in emerging markets have increased substantially over the last decade. Total assets under management in emerging markets increased from $265 million at the end of 2000 to $4,150 million in 2012, representing 9 per cent approximately of the total Fund.

2. The presence in emerging markets is mainly realized through listed equities. The equity portion amounts to $3,750 million, 96.4 per cent invested internally, the rest has been invested through external funds in frontier markets. The Fund is also gradually increasing its exposure to other instruments by investing $375 million to private equity, approximately $110 million to real estate, and $71 million to fixed income.

3. Over the years, the Investment Management Division has built a dedicated investment team and has developed a disciplined process for identifying and investing in stocks across emerging markets.

4. Emerging markets are increasing in sophistication and depth and are becoming a major investment destination for institutional investors. Most financial institutions are devoting substantial human and technological resources to this asset class.

5. The Investment Management Division believes that in the coming years, the opportunity to generate enhanced performance from understanding country, sector and company fundamentals within individual emerging economies will become much greater.

Current portfolio and diversification

6. The portfolio is invested directly and indirectly in more than 40 countries, including 10 African countries. If we refer to the Morgan Stanley Capital International (MSCI) Index, 21 countries are defined as emerging markets and 26 countries as frontier markets. The latter represent less than 4 per cent of the total in terms of market capitalization.

7. Large markets such as Brazil, Mexico, China, India, South Africa and the Russian Federation have offered differentiated and multiple investment opportunities, and still attract the bulk of foreign portfolio equity investment, but there is increasing interest in other regions for reasons of diversification.

8. The emerging countries have large untapped domestic markets and a rapidly growing middle class. This underexploited internal demand is likely to be the main economic growth driver going forward. Increases in infrastructure spending are critical for the emerging economies as their populations continue to expand and urbanize.

Performance and risk

9. Emerging markets are a high-risk, high-return investment environment. Over the past 10 years, most of them outperformed the MSCI World Index, even if they corrected due to the global economic crisis.

10. The portfolio has been built to perform in normal economic conditions, but in the last five years (see appendix), the world has had to face the worst financial crisis in decades. Over that period, the portfolio has been performing slightly below its benchmark but in line with its peers in the industry, and within a reasonable level of risk.

11. The Fund seeks to invest in solid companies with quality and sustainable growth and hold them for the long term, resulting in low turnover. Good management is often key to surviving temporary geopolitical or economic instability.

12. The liquidity issue has become a major challenge for the Fund. Given the rapid rise of the assets, an increasing part of the index has been difficult to invest in. It also has been identified that some of the constraints imposed by the Fund guidelines, such as the non-tobacco policy, taxation (despite the Convention on the Privileges and Immunities of the United Nations) and subcustody issues, had a negative impact on overall performance.

Strategy

13. Emerging countries have been the major drivers and beneficiaries of the economic prosperity of the past decade. It is expected that they will continue to experience faster economic growth for some years to come. Most regions generally benefited from political stability, institutional reforms and improved governance.

14. Emerging markets have corrected, as the prolonged turmoil in the developed market has impacted some of their fundamental growth drivers, including global trade, foreign direct investment and commodity and energy prices. The market correction reflects not only global fears, but also downgrades for 2012 earnings estimates.

15. However, emerging market governing bodies are well positioned to provide fiscal and monetary stimulus to keep economies growing, while for 2013 and onwards secular drivers remain in place, such as rising consumer spending power. Emerging countries have small fiscal deficits, good current account dynamics, strong reserve balances and favourable demographics.

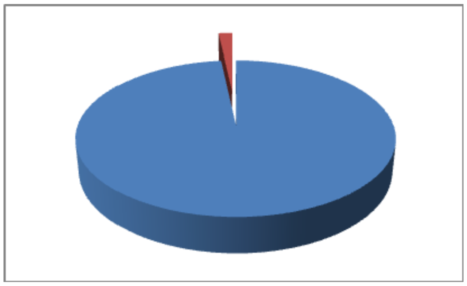
16. In terms of valuations, emerging market equities today trade at a 25 per cent discount price earnings ratio to their long-term averages, and at a significant discount to developed markets. Profitability and dividend yields are near historic highs.

17. In the coming decade, emerging countries proportion, in terms of gross domestic product (GDP), will represent close to 50 per cent of the global economy. Still the MSCI Emerging Markets Index, which includes only the investable portion of emerging markets, represents around 13.5 per cent of the MSCI World Index. Emerging markets are expected to grow to a size of 40 to 45 per cent of the global stock market’s market capitalization by 2030.

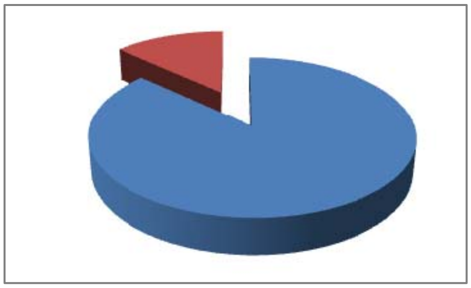
18. The United Nations Joint Staff Pension Fund should increase judiciously its exposure to global emerging markets, seeking superior returns without undue risk for the Fund. The eventual goal would be to achieve 20 per cent weight of total equity of the Fund portfolio within the next five years.

Appendix

2000: 1.1 per cent of the Fund



2012: 9.1 per cent of the Fund



(As at 30 June 2012)	*Asset under management (billion)*	*Size of team*	*5-year performance*	*Tracking error*	*Number of stocks*
UNJSPF — EM	3.8	5	-0.3	2.5	144
Lazard EM Fund	15.2	58	2.1	10.0	87
Aberdeen Global EM Fund	13.0	33	2.3	9.1	71
Ashmore EMM BGA FUND	4.3	33	-2.1	3.6	108
JPMorgan EM — Institutional	2.3	30	1.5	8.7	65
Franklin Templeton EM Institutional	1.1	50	-1.1	8.3	65

Source: Bloomberg PORT, United Nations Joint Staff Pension Fund, Ashmore.

Risk/return statistics and characteristics: 5 years ending 30 June 2012

	Portfolio	*Index*		*Portfolio*	*Index*
Return	-0.3	0.21	PER	11.8	11.3
Excess return	-0.51		PCF	6.5	7.3
Tracking error	2.52		EPS growth 5Y	16.5	14
Information ratio	-0.2		ROE	21.2	23.7

Abbreviations: EPS, earnings per share; PCF, price to cash flow ratio; PER, price earnings ratio; ROE, return on equity.