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Programme budget for the biennium 2012-2013

Proposed programme budget for the biennium 2014-2015

Administrative expenses of the United Nations Joint Staff Pension Fund and amendments to the regulations of the Fund

Fourth report of the Advisory Committee on Administrative and Budgetary Questions on the proposed programme budget for the biennium 2014-2015

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the United Nations Joint Staff Pension Board on the administrative expenses of the United Nations Joint Staff Pension Fund and amendments to the regulations of the Fund (A/68/303). The Committee also had before it a note by the Secretary-General on the membership of the Investments Committee. During its consideration of the report, the Committee met the Chair of the Board, the Chief Executive Officer of the Fund and the Representative of the Secretary-General for the Investments of the Fund, who provided additional clarification, concluding with written responses received on 18 October 2013.

2. The report of the Pension Board contains the estimated expenditure and performance report for the biennium 2012-2013; the proposed budget estimates for the biennium 2014-2015; and a proposal for authorization to supplement contributions to the Emergency Fund for the biennium 2014-2015 by an amount not exceeding $200,000. Annex I to the report summarizes the discussions in the Board on, among other things, the revised appropriations for the biennium 2012-2013 and the estimates for the biennium 2014-2015. Section V of the report contains recommendations for amendments to the regulations of the United Nations Joint Staff Pension Fund. Section VI of the report contains the recommended action to be taken by the General Assembly.

3. It is indicated in the report that there were 23 member organizations of the Fund as at 31 December 2012, with a combined total of 188,775 active participants and beneficiaries covered by the Fund. The number of active participants has increased from 120,774 as at 31 December 2011 to 121,098 as at 31 December 2012 (see A/68/303, annex IV). The Advisory Committee was informed that the Fund makes payments to 67,600 retirees and beneficiaries in more than 190 countries and in 15 currencies, which amount to in excess of $2 billion annually, and that, by 2020, the Fund is expected to cover more than 85,000 retirees and beneficiaries. According to the Pension Board's report, the Fund balance as at 1 January 2012 stood at $39.7 billion, while the balance as at 31 December 2012 was $44.7 billion (ibid., annex VII, note 6), an increase of $5 billion, or 12.6 per cent, in 2012 (see also para. 5 below).

4. Annex I to the report of the Pension Board reflects the discussions in the Board on the revised budget estimates for 2012-2013 and on the budget estimates for the biennium 2014-2015. The Advisory Committee notes that the Board convoked a budget working group, composed of two members from each of the constituent groups and two representatives of the Federation of Associations of Former International Civil Servants, to review the Fund secretariat's proposals and to make relevant recommendations to the Board (see A/68/303, annex I). Paragraphs 27 to 42 of annex I to the Board's report describe the role of the working group and the relevant recommendations in respect of the revised estimates for the biennium 2012-2013 and the budget estimates for the biennium 2014-2015. The budget working group's recommendations were endorsed by the Board and are reflected in section III of the Board's report (see paras. 8 to 44 below).

5. The Advisory Committee recalls that, in its previous report on the investments of the Fund, while it did not object to the use of two distinct biennium periods for reporting on the operations and on the investments of the Fund, it requested that the Fund present comprehensive financial information in the reports in a format that facilitated comparison with prior financial periods (see A/67/525, para. 16). The Committee notes from the report of the Pension Board that, in accordance with the International Public Sector Accounting Standards (IPSAS), the Fund will report on the fair value of its investments and on its operations as at 31 December of each year going forward (A/68/303, sect. VII.A, para. (d)). The Committee further notes from the Board's report that, with the adoption of IPSAS, the net impact of the adjustment attributable to the application of fair value to the Fund's assets amounted to an increase on 1 January 2012 of $4,615.9 million in the Fund balance of $35,206.9 million carried over from 31 December 2011 (ibid., annex VII, note 3). **The Advisory Committee welcomes the alignment of reporting on the operations and on the investments of the Fund following the implementation of IPSAS.**

II. Revised budget estimates and performance report for the biennium 2012-2013

6. The Advisory Committee recalls that the General Assembly, in its resolution 66/247, approved appropriations for the biennium 2012-2013 totalling $194,100,900, comprising administrative costs ($97,919,600), investment costs ($93,363,100), audit costs ($2,613,800) and Pension Board expenses ($204,400). Of this amount, $173,412,600 is chargeable directly to the Fund and $20,688,300 is the share of

costs to be borne by the United Nations. In addition, extrabudgetary resources amounting to $152,900 were provided by a number of member organizations. It is indicated in paragraph 6 of the Board's report that total expenditure for the biennium 2012-2013 is estimated at $185,730,600, comprising administrative costs ($96,871,800), investment costs ($85,930,900), audit costs ($2,631,000) and Board expenses ($296,900), which will result in an overall underexpenditure of $8,370,300, or 4.3 per cent of the total appropriation. An overexpenditure of $23,800, or 15.5 per cent, is projected under extrabudgetary costs. The reasons for the variances in expenditure are provided in detail in paragraphs 7 to 34 of the Board's report.

7. The projected administrative costs of the Fund in 2012-2013 will amount to $96,871,800, resulting in underexpenditure of $1,047,800, or 1.1 per cent, owing principally to reduced requirements mainly under temporary posts ($1,079,200) and contractual services ($999,300), which is offset, in part, by additional requirements under posts ($817,400), consultants ($65,600) and other staff costs ($191,300). The total expenditure for the biennium 2012-2013 under investment costs is estimated at $85,930,900, resulting in an underexpenditure of $7,432,200, or 8 per cent, which is attributable to a reduction in the requirements for travel ($578,000, or 28.3 per cent), consultants ($141,100, or 11.7 per cent), posts ($1,593,900, or 8.9 per cent), contractual services ($4,981,800, or 7.8 per cent) and other staff costs ($135,400, or 4.6 per cent). The projected underexpenditure under contractual services is mainly due to delays in the procurement of contracts ($2,900,000) with the public real estate manager and the analytical tools provider, in addition to the decision to delay contractual arrangements with a hedge funds adviser until adequate staffing is in place for this asset class (see A/68/303, para. 23).

III. Proposed budget for the biennium 2014-2015

8. The proposed resource requirements for the Fund in 2014-2015 amount to $174,632,700, before recosting, comprising requirements under executive direction and management ($14,052,800); programme of work ($85,644,600); support ($72,043,800); audit costs ($2,491,400); and expenses of the Pension Board ($400,000). Of this amount, $157,527,800 would be apportioned to the Fund and $21,324,700 to the United Nations under the relevant cost-sharing arrangement. The proposed requirements reflect an overall decrease of $19,468,200, or 10 per cent, before recosting, compared with the revised appropriation for 2012-2013. The Advisory Committee notes, however, that, as a result of the change in the methodology for formulating the budget for administrative expenses (see para. 43 below), the Board's proposed requirements for 2014-2015 reflect an increase of $1,795,300, or 0.9 per cent, compared with 2012-2013. In addition, the Board projects extrabudgetary expenditure in the amount of $151,500 for the biennium 2014-2015.

9. The proposed resource requirements for the biennium 2014-2015 reflect the following:

(a) A decrease of $9,552,000, before recosting, in administrative costs, comprising the net effect of the decreased requirements for temporary posts ($2,531,400, or 69 per cent), contractual services ($9,997,600, or 30.7 per cent) and furniture and equipment ($304,300, or 14.8 per cent), and the increased requirements for established posts ($503,900, or 1.3 per cent), other staff costs ($1,281,800, or 32 per cent), consultants ($518,300, or 169 per cent), travel ($148,500, or 11.9 per cent), general operating expenses ($813,300, or 5.6 per cent) and supplies and materials ($15,500, or 8.2 per cent);

(b) A decrease of $9,989,500, before recosting, in investment costs, comprising the net effect of the decreased requirements for other staff costs ($464,800, or 15.7 per cent) and contractual services ($17,772,300, or 27.8 per cent), and the increased requirements for posts ($4,973,000, or 27.9 per cent), consultants ($257,300, or 21.4 per cent), travel ($280,800, or 13.7 per cent), hospitality ($1,500, or 6.7 per cent), general operating expenses ($2,513,500, or 55.7 per cent), supplies and materials ($10,600, or 6.5 per cent) and furniture and equipment ($210,900, or 29.5 per cent);

(c) A decrease of $122,400, or 4.7 per cent, in the requirement for audit costs;

(d) An increase of $195,600, or 95.7 per cent, in the requirement for the expenses of the Pension Board.

10. The proposed budget for 2014-2015 provides for a total of 234 continuing established posts, 27 new posts and 10 temporary posts. A comparison of the new posts proposed by the Fund secretariat, those proposed by the Pension Board and those supported by the Advisory Committee is contained in the annex to the present report. In addition, a request is made for the continued funding by member organizations of an extrabudgetary post (General Service).

Recruitment and staffing

11. The Board of Auditors, in its report on the financial statements of the Fund, indicated that there were 17 vacant posts in the Professional and higher categories as at 15 April 2013 (17 per cent). Nine posts had been vacant for more than 12 months and three since the biennium 2010-2011 (A/68/303, annex VIII, para. 109). Upon enquiry, the Advisory Committee was informed that, as at 7 October 2013, there were 10 vacant posts in the Professional and higher categories (10 per cent), of which 6 had been vacant for more than 12 months and 3 continued to be vacant from the biennium 2010-2011. **The Advisory Committee recalls its previous observations and recommendations on recruitment in the Fund (see A/66/7/Add.2, para. 26) and requests the Pension Board to ensure that vacancies be filled in a timely manner.**

12. The Advisory Committee recalls that, in the previous report on the administrative expenses of the Fund, the Pension Board indicated that it was undertaking a review of the policies governing the recruitment, mobility, promotion and retention of its staff (see A/66/266, para. 55). The Committee notes that the report of the Board does not contain the information on the results of that review or any measures introduced to ensure continuity in the secretariat of the Fund, which was requested by the Committee in its related report (see A/66/7/Add.2, para. 22). Upon enquiry, the Committee was informed that the review had not been completed and that a task force had been constituted to review existing policies relating to human resources management, in particular with regard to the recruitment, promotion and retention of Fund staff whose functions might require an advanced level of expertise in a technical field.

A. Administrative costs

13. The proposed requirements under administrative costs in 2014-2015 are described in paragraphs 63 to 110 of the report of the Pension Board. The overall level of resources proposed for the administrative costs under executive direction and management, programme of work and support amounts to $88,367,600 before recosting, reflecting a decrease of $9,552,000, or 9.8 per cent, compared with the revised appropriation for 2012-2013. The decrease in administration costs in 2014-2015 is the net result of reduced requirements under programme support ($10,017,500), offset, in part, by increased requirements under executive direction and management ($425,500) and programme of work ($40,200) (see A/68/303, para. 70).

Post resources

14. Under administrative costs, the proposed resources for posts for the period from 1 January 2014 to 31 December 2015 amount to $39,974,600 before recosting, an increase of $503,900, or 1.3 per cent, compared with 2012-2013. The proposed budget provides for 169 existing and 3 new posts; 10 temporary posts, compared with 16 in 2012-2013; and the continuation of an extrabudgetary post.

15. The Pension Board proposes the establishment of a risk management and legal service, reporting to the Chief Executive Officer, which is intended to enhance the Fund's ability to understand and oversee key solvency issues and provide adequate and professional integrated analysis for informed decision-making at the legislative and managerial levels (see A/68/303, para. 46). The staffing requirements of that service would be met through the redeployment of three existing administration posts from executive direction and management to programme of work (1 P-5, 1 P-4 and 1 P-3) and the proposed establishment of two new posts (1 D-1 and 1 General Service (Other level)). The service would develop doctrine, disseminate policy and provide technical expertise on plan design and risk management issues, liaise with oversight mechanisms, as well as improve compliance functions, by facilitating consistent and uniform interpretation and application of the regulations and rules of the Fund and provisions of the pension adjustment system and by ensuring the conformity of internal policies and procedures with legal obligations and best practices (see ibid., para. 93). It would comprise two sections: a risk management and technical analysis section and a legal and compliance section. The former would research, analyse, advise and coordinate relevant plan design issues with the aim of ensuring continuity and cohesiveness among the various constituents of the Fund, minimizing complexity in overall plan design and simplifying and streamlining the regulations (see ibid., para. 94). The latter, constituted from existing resources of the Legal Office, would continue to support the Fund's operations by providing legal services and assistance to all sections and offices in the secretariat of the Fund (see ibid., para. 97).

16. It is proposed that one administrative post (P-3) be redeployed from programme of work to executive direction and management component. The Advisory Committee was informed that the post of Reporting Officer (P-3) had originally been established in the Operations Section to measure performance and that, because each of the areas of the Fund was also providing similar measurements and reporting to the Chief Executive Officer, it was proposed that the post be redeployed to the Office of the Chief Executive Officer in order to measure

performance on a Fund-wide basis in a consistent manner, thus eliminating the fragmented reporting from each area. The Pension Board also proposes the redeployment of a General Service (Other level) post from executive direction and management to the Operations Section under programme of work (see A/68/303, para. 80).

17. The Pension Board proposes the establishment of a new post of Accountant (P-3) for the Financial Services Section. The Advisory Committee was informed that the Accountant would support the Chief of Accounts and the Chief Financial Officer in the preparation of IPSAS-compliant financial report statements and the design and implementation of business specifications in the new financial information technology platform. The Committee was further informed that the Fund had proposed the new post in response to recommendations by the Office of Internal Oversight Services that the Fund should ensure that the duties for the financial statement preparation and reconciliation functions were segregated from the operational responsibilities for generating the accounting records and should develop procedures for performing and documenting the periodic review of the trial balance and general ledger accounts and assign that function to an individual who did not process or approve accounting entries.

18. **The Advisory Committee has no objection to the Pension Board's staffing proposals for the biennium 2014-2015 under administrative costs.**

Non-post resources

19. The proposed non-post requirements under administrative costs for the Fund in 2014-2015 amount to $48,393,000, compared with $58,448,800 in 2012-2013, which reflects a decrease of $10,055,800, or 17.2 per cent. The reduction is attributable mainly to the decrease in resources allocated for contractual services relating to the Integrated Pension Administration System under programme support ($6,055,900) and other reductions stemming from anticipated efficiency gains following the implementation of the System in 2014 ($3.4 million) (see paras. 46-47 below).

20. **Subject to its recommendation on travel resources in paragraph 45 below, the Advisory Committee recommends the acceptance of the Pension Board's proposals for non-post resources under administrative costs.**

Cost per participant

21. The report of the Pension Board provides information on the cost per participant for the administration of beneficiaries, which is calculated by dividing the total administrative costs in the Fund's budget by the number of active participants, retirees and beneficiaries, adjusted for inflation. The administrative cost per participant in the Fund is estimated to be $208 in 2012 and $206 in 2013, and is projected to be $178 by 2015. The Advisory Committee notes that the projected cost per participant in 2015 is above the inflation-adjusted average of $173 per participant for the 10-year period ending 31 December 2013 (see A/68/303, para. 65). The Committee notes that, while the projected reduction in the cost per participant in 2015 is attributed to the decreased non-post requirements under administrative costs, including those relating to the implementation of the Integrated Pension Administration System, and the reduction in the level of contractual services obtained from the International Computing Centre (see ibid.,

para. 69), the reduction attributed to the System is related both to the phasing out of one-time expenditure and to savings under administrative costs in the future (see para. 46 below). **The Advisory Committee considers that the cost per participant is a useful performance measure to assess the management of the Fund over time.**

B. Investment costs

22. The proposed investment costs are discussed in paragraphs 111 to 137 of the report of the Pension Board. The overall level of resources proposed for the Investment Management Division amounts to $83,373,600 before recosting, reflecting a decrease of $9,989,500, or 10.7 per cent, compared with 2012-2013. The decrease requested under investment costs in 2014-2015 is mainly due to reduced requirements under programme of work ($14,083,100), offset, in part, by increased requirements under programme support ($4,111,700) (see A/68/303, para. 112). The Advisory Committee notes, however, that, owing to the removal of external management fees from the investment costs of the budget (see para. 43 below), the proposed requirements for 2014-2015 reflect an increase of $11,274,000, or 12.1 per cent, compared with 2012-2013.

Post resources

23. Under investment costs, the proposed resources for posts for the period from 1 January 2014 to 31 December 2015 amount to $22,803,900 before recosting, an increase of $4,973,000, or 27.9 per cent, compared with 2012-2013, and provide for 65 existing and 24 new established posts.

Staffing changes

24. The 24 new posts proposed under investment costs are as follows:

(a) Under executive direction and management, three new posts are proposed: one full-time Representative of the Secretary-General (Assistant Secretary-General), one Special Assistant to the Representative (P-4) and one Administrative Assistant (General Service (Other level));

(b) Under programme of work, 21 new posts are proposed: 15 new posts for the Investment Section (1 D-1, 4 P-4, 6 P-3 and 2 General Service (Principal level) as from 1 January 2014 and the addition of 1 P-4 and 1 P-3 as from 1 January 2015); 1 post (P-3) as from 1 January 2015 for the Risk and Compliance Section; 4 additional posts (1 D-1, 1 P-4, 1 P-3 and 1 General Service (Principal level)) for the Operations Section; and 1 new post (P-3) as from 1 January 2015 for the Information Systems Section.

25. The Pension Board also proposes the internal redeployment of the post of Director of the Investment Management Division (D-2) to head the Investment Section, whose title would be changed to Chief Investment Officer of the Fund (see para. 36 below).

Full-time post of Representative of the Secretary-General for the Investments of the Fund

26. The Pension Board proposes the establishment, at the Assistant Secretary-General level, of the post of full-time Representative of the

Secretary-General for the Investments of the Fund. Those functions have previously been performed on a part-time basis by a senior United Nations official at either the Under-Secretary-General or Assistant Secretary-General level. The Board also proposes a revision to the Fund regulations relating to the full-time Representative to include a provision for the Secretary-General to consult the Board before appointing his Representative. The Advisory Committee was informed, upon enquiry, that a review of the part-time status of the Representative was initially considered by the Board at its fifty-ninth session, held in 2012, and was subsequently taken up in 2013 by the Board's Working Group on Sustainability, the Audit Committee and the Investment Committee. The Committee was further informed that the Secretary-General had a fiduciary relationship towards the participants and beneficiaries of the Fund with regard to the investment of the assets of the Fund and carried full responsibility for meeting the Fund's required investment return objective, in addition to managerial and operational accountability for the Fund's investments. The Committee was informed that the proposal for a full-time Representative would allow for better coordination within the Fund and a more appropriate level of involvement in and oversight of an increasingly complex operation.

27. According to the supplementary information provided to the Advisory Committee, the recent growth in the assets of the Fund and the complexities of the Fund's investments and of the current financial markets require a full-time commitment. The proposed full-time Representative would lead the operations in terms of strategy and policy analysis, asset liability management, asset allocation, portfolio management and investment decision-making; risk management and compliance and monitoring; back-office accounting and trade settlement and cash management and systems and information technology requirements. The Representative would also ensure that all the operations and functions were properly coordinated and aligned under a consistent and coherent management framework so that the fiduciary role of the Secretary-General on behalf of beneficiaries and participants would be fully met. The Committee was further informed that the proposed full-time Representative presented an opportunity to clearly codify the delegation of the fiduciary duty of the Secretary-General, including the principles of duty of care, duty of prudent investor, duty of loyalty and impartiality and duty to account and render information, as well as to delineate the reporting lines and accountability of the Representative. The Advisory Committee notes that, in accordance with article 3 of the terms of reference of the Investments Committee contained in the Fund regulations, the Representative is delegated responsibility for the investments of the Fund and for making the final decisions on investments, with the assistance of the Investment Management Division, after evaluating advice, observations and suggestions received from the Pension Board and the General Assembly, in addition to the advice of the Investment Committee and the institutional investment firms retained by the Fund on a contractual basis. The Committee was informed that the terms of reference for the Representative would be harmonized with those of the Chief Executive Officer and would take into consideration the Fund's mission, overall structure and operational needs as a whole and would delineate the accountability and responsibilities of the Representative within the Fund. The Committee further notes that the Board has requested that minimum qualifications, competencies and performance standards be established for the Representative in consultation with the Board (see A/68/303, para. 151). The Committee notes that, while the Board proposes that the Representative continue to perform the same functions and fiduciary responsibilities delegated by the

Secretary-General as hitherto performed on a part-time basis, the proposed functions of the full-time Representative would be expanded to comprise the leadership and management of the Investment Management Division.

28. **The Advisory Committee has no objection to the proposed establishment of a full-time position of Representative of the Secretary-General for the Investments of the Fund at the Assistant Secretary-General level, on the basis of the current terms of reference. The Committee notes that it was not provided with updated terms of reference detailing the future role, responsibilities and functions of the Representative and considers that the requirement for the position needs to be fully rejustified in the context of the 2016-2017 budget for the Fund. The Committee recommends that the General Assembly request to be provided with revised terms of reference for the full-time Representative in the context of the Board's report on the proposed administrative expenses of the Fund for 2016-2017, taking into account the results of the review of the governance arrangements and the management structure of the Fund (see para. 34 below).**

29. **The Advisory Committee further recommends that, pending the consideration by the General Assembly of the revised terms of reference for the Representative and the requested review of the Fund's governance arrangements and management structure, the Assembly not approve the proposed revision to the Fund regulations requiring that the Secretary-General consult the Pension Board before appointing the Representative.**

30. In addition, the Pension Board proposes the establishment of a new post of Special Assistant to the Representative of the Secretary-General (P-4) to support and coordinate the programme of work of the Investment Management Division and a new General Service post of Administrative Assistant (Other level) to provide the Representative with administrative and secretarial support. **Pending the submission of the review of the governance arrangements and management structure of the Fund, the Advisory Committee recommends against the approval of the post of Special Assistant to the Representative (P-4). The Committee does not object, however, to the establishment of the General Service post of Administrative Assistant (Other level) for the Office of the Representative.**

Governance arrangements and management structure of the Pension Fund

31. Upon enquiry, the Advisory Committee was informed that while the Fund is one organizational entity, it has a bifurcated management structure, whereby the Chief Executive Officer is responsible for the management and administration of the Fund and the Secretary-General is responsible for the management of the investment of the assets of the Fund. The Committee was further informed that the Chief Executive Officer, as chief administrative officer, leads the Fund and is responsible and accountable to the Pension Board for the management and administration of the Fund as a whole and that the Board in turn reports on all aspects of the Fund to the General Assembly, including on such Fund-wide topics as budget, governance, audit, financial statements and long-term sustainability. The Committee was further informed that the current framework for delineating the respective areas of responsibility, authority and accountability of the Secretary-General, as delegated to his Representative, would not change after the establishment of the full-time position.

32. The Pension Board therefore proposes that the Fund be led in 2014-2015 by two Assistant Secretaries-General, comprising the Chief Executive Officer reporting to the Pension Board and the Representative reporting to the Secretary-General. In this regard, the Advisory Committee was informed, upon enquiry, that the Board could not identify any similar retirement funds in which the investment management responsibility regarding the plan's assets was completely separated from the administration and liability management responsibility, and that a single entity, with the overall responsibility for both investments and administrative and liability management of such retirement funds, was the industry norm. The Committee was also informed that the Pension Board, during its discussions on the proposed budget for the biennium 2014-2015, had not considered alternatives to the current bifurcated management structure. The Committee was further informed, however, that, given the increasing importance of the assets to the operations and stability of the Fund, and the growing complexity and volatility of the markets, it might be opportune to review the governance arrangements and the management structure of the Fund, taking into consideration best practices in similar pension funds.

33. **The Advisory Committee notes that the regulatory framework of the Pension Fund provides for a division of responsibilities between the functions of the Representative of the Secretary-General for the Investments of the Fund and the functions of the Chief Executive Officer. The Committee is of the view that the division of responsibilities between the administration of the Fund and the management of investments does not necessarily entail the bifurcation of its management structure. The Committee is of the opinion that the Pension Board should examine the Fund's governance arrangements and management structure in order to ensure the optimal utilization and orientation of its budgetary resources and the achievement of its long-term objectives. Such a review should take into consideration the possibility of establishing a single position of leadership for the Fund, guiding both its administrative and investment management components. This review should elaborate the roles, responsibilities and reporting lines of the senior management positions of the Fund.**

34. **The Advisory Committee therefore recommends that the General Assembly request the Pension Board to submit the results of the review of its governance arrangements and management structure, and its related conclusions and recommendations, to the Assembly for its consideration in the context of the budget for the administrative expenses of the Fund for the biennium 2016-2017.**

Investment Section

35. The Pension Board proposes 15 new posts for the Investment Section (1 D-1, 5 P-4, 7 P-3 and 2 General Service (Principal level)), in addition to the existing staffing of 32 posts (1 D-2, 1 D-1, 7 P-5, 9 P-4, 5 P-3, 4 General Service (Principal level) and 5 General Service (Other level)). The Investment Section would be divided into two units devoted to managing the public and private portfolios and all related activities and new initiatives. The Advisory Committee was informed that public markets investments include North American equity, European equity, Asia-Pacific equity, global emerging markets, trade execution, fixed income and the management of external specialty funds, and that private markets investments include real assets and alternative investments.

36. The Pension Board proposes the redeployment of the post of Director of the Investment Management Division (D-2) to the Investment Section to serve as the Chief Investment Officer to oversee the private and public markets portfolios (see A/68/303, para. 44). The Advisory Committee was informed that the Chief Investment Officer would lead all investment initiatives and provide overall leadership and management of the Investment Section. **In the light of its recommendation in paragraph 28 above, the Advisory Committee recommends against the redeployment of the D-2 position, which should continue to retain responsibility for the coordination and management of the Investment Management Division under its current structure. The Committee recommends that the General Assembly request that the functions of the post of Chief Investment Officer be rejustified in the context of the review of the governance arrangements and management structure of the Fund, and that any other modifications to the organizational structure also be reflected in the proposed budget for the biennium 2016-2017.**

37. The Pension Board proposes the retention of the current post of head of the Investment Section for the head of public markets investments and the establishment of a new additional post at the D-1 level for private markets investments. The Committee was informed that the head of private markets investments would be responsible for the development and implementation of the policies, procedures and investment programmes relating to the global private market investments portfolio and would oversee all facets of the private markets investments process in order to achieve the overall portfolio policy objective. **The Committee does not object to the establishment of the D-1 post for the head of private markets investments.**

38. The Pension Board proposes that the North American equities area be strengthened with three new Investment Officer posts at the P-3 level. The Advisory Committee was informed that the Investment Officers would monitor the various portfolio holdings, conduct analysis and research in respect of investments and undertake ongoing communication with brokerage houses and other financial institutions with the goal of preparing forecasts of expected performance and recommending specific purchases or sales of securities, as appropriate, in order to achieve superior investment returns. The Committee was informed, upon enquiry, that the North American equity portfolio amounted to $16.6 billion in assets as at 30 September 2013, with investments in some 190 individual companies in 10 sectors (24 industries) across two separate country portfolios (United States of America and Canada). The portfolio includes investments of $1.4 billion in exchange traded funds securities and $1.1 billion in separate external (small capitalization) investments. The Committee notes that the North American equities portfolio currently comprises three professional posts (1 P-5, 1 P-4 and 1 P-3). **The Advisory Committee further recalls that the Office of Internal Oversight Services had recommended that the Fund reassess the requirements for additional investment officers, especially for North American securities, and/or consider outsourcing a portion of the North American equity portfolio to outside discretionary investment (see A/58/81, para. 49). The Committee, while recognizing the need to adequately staff the North American equities portfolio commensurate with its workload, is not convinced of the need for doubling the professional staffing in this area, given that the dollar volume of investments by itself may not be an accurate indicator of the related workload. The Committee therefore recommends that the General Assembly approve only two new**

Investment Officer posts at the P-3 level for the North American equities portfolio for the biennium 2014-2015.

39. The Pension Board also proposes that the real assets area be strengthened with two new Investment Officer posts (1 P-4 and 1 P-3). The Advisory Committee was informed that the additional P-4 post for the infrastructure, timber and agriculture portfolio would also function as portfolio manager for a large group of funds in the real assets portfolio, representing the Investment Management Division in the advisory boards of individual investment funds and in other annual meetings with management and visiting properties and funds in which the Fund is invested or is planning to invest. The P-3 post would provide follow-up analysis and would collect and synthesize research in all real estate investment markets where the Fund has investments. The Committee was further informed that real assets investments amounted to $2.3 billion as at 30 September 2013. The Committee notes that the real assets portfolio currently comprises two professional posts (1 P-5 and 1 P-4). **In view of the volume of real assets investments, the Advisory Committee is not convinced of the need for doubling the professional staffing in this area and recommends that the General Assembly approve only the proposed new Investment Officer post at the P-3 level for the biennium 2014-2015.**

40. The Board proposes two new Investment Officer posts (1 P-4 and 1 P-3) and one General Service (Principal level) post for the alternative assets investments portfolio. The Advisory Committee was informed that the objective of the Fund's alternative assets investment programme is to earn a return premium over what could be earned from investments in publicly listed equities. The proposed P-4 Investment Officer would be responsible for support in the selection and monitoring of hedge fund managers; performing due diligence and conducting background searches of key personnel; industry surveys; cost comparison; third-party fund valuation and related technology; compliance and legal requirements; individual fund analysis through attending investor meetings with investment professionals; and building relationships with the management of companies and funds. The Committee was informed that the P-3 Investment Officer post was required because the underlying assets in a portfolio of alternative investments are harder to analyse and the Division is required to perform more thorough due diligence and market research before selecting new investments and to make continuing decisions regarding which existing investments to retain. The Committee was further informed that alternative investments amounted to $596 million in assets as at 30 September 2013. The Committee notes that the alternative assets portfolio currently comprises two professional posts (1 P-5 and 1 P-4). **While the Advisory Committee recognizes the potential of alternative assets investments to the Fund's long-term growth, it is not convinced of the need for doubling the professional staffing in the light of the current volume under this class of investments in the Fund. The Committee therefore recommends that the General Assembly approve only one new Investment Officer post at the P-4 level, in additional to the proposed General Service (Principal level) post, for the alternative assets area for the biennium 2014-2015.**

41. **While cautioning against a general trend towards upgrading senior-level posts in the investments area of the Pension Fund, and subject to its recommendations in paragraphs 28, 29, 30, 36, 38, 39 and 40 above, the Advisory Committee recommends acceptance of the Pension Board's staffing proposals under investment costs.**

Non-post resources

42. The proposed non-post requirements under investment costs for the Fund for the biennium 2014-2015 amount to $60,569,700, which is a decrease of $14,962,500, or 19.8 per cent, compared with 2012-2013. The decrease is attributable mainly to reductions in the requirement for contractual services of $17,772,300 and for other staff costs of $464,800, offset, in part, by increased requirements for consultants ($257,300, or 21.4 per cent), travel ($280,800, or 13.7 per cent), hospitality ($1,500, or 6.7 per cent), general operating expenses ($2,513,500, or 55.7 per cent), supplies and materials ($10,600, or 6.5 per cent), and furniture and equipment ($210,900, or 29.5 per cent). The Committee was informed that the increase in the requirement for general operating expenses was attributable to the requirement for additional space and major renovations to accommodate the 24 proposed new posts, in addition to increased building operating expenses. **The Advisory Committee trusts that expenditure on general operating expenses will be adjusted in the biennium 2014-2015, commensurate with the actual number of approved new posts.**

External management fees for small capitalization funds and publicly traded real estate

43. The Pension Board proposes a total of $46,146,900 under investment costs for contractual services in 2014-2015, a decrease of $17,772,300 before recosting, or 28.8 per cent, compared with 2012-2013, primarily attributable to the proposal to remove external management fees for small capitalization funds and publicly traded real estate from the Pension Fund's administrative budget, which would be paid from the principal of the Fund and disclosed in the financial statements. The Advisory Committee notes that the 2012-2013 budget provides a combined total of $21,263,500 for external management fees, comprising $18,401,100 for small capitalization funds and $2,862,400 for publicly traded real estate. The Committee was informed that external management fees for small capitalization funds and publicly traded real estate are projected to total $41.7 million in the biennium 2014-2015, according to the assessment by the Investment Management Division of the size of the portfolio to be managed, the estimated return for the portfolio and the anticipated increase in the number of mandates. The Committee was further informed that the proposal to remove external management fees for small capitalization funds and publicly traded real estate would align financial reporting on the financial statements of the Fund with investment performance reporting. The Committee notes that the Board of Auditors, in its report on the financial statements of the Pension Fund for the period ended 31 December 2012, recommended that the Fund review the classification of small capitalization fund management fees and other similar expenses, to ensure that similar transactions are shown consistently in the financial statements (see A/68/303, annex VIII, para. 47). **The Advisory Committee nevertheless recommends that the General Assembly approve the Pension Board's proposal to remove external management fees for small capitalization funds and publicly traded real estate from the Fund's administrative budget to be paid from the principal of the Fund and disclosed in the financial statements. The Committee notes, however, that the reduction in the requirements attributed to the proposed removal of external management fees from the budget is not a savings, but rather is the result of a change in the accounting treatment of such fees.**

44. **Subject to its recommendations in paragraphs 42 above and 45 below, the Advisory Committee recommends acceptance of the proposed non-post resources under investments.**

C. Other comments and recommendations

Travel

45. The total proposed requirement for official travel amounts to $3,724,800 in 2014-2015, including both administrative and investment costs, which reflects an increase of $429,300, before recosting, or 13 per cent, compared with the 2012-2013 appropriation of $3,295,500 (see A/68/303, table 5). The Advisory Committee notes that the Board projects an underexpenditure of $608,200 under travel for the biennium 2012-2013, compared with the appropriation of $3,295,500 under General Assembly resolution 66/247, which, the Committee was informed, is mainly attributable to the replacement of travel by videoconferences, by combining trips and by taking advantage of investment company visits to New York (see A/68/303, para. 20). The Committee therefore notes that the amount proposed for official travel for 2014-2015 reflects an increase of $1,037,500 before recosting, or 27.9 per cent, compared with the projected expenditure of $2,687,300 for the biennium 2012-2013 (see A/68/303, table 1). **The Advisory Committee is of the view that the continued utilization by the Fund of alternatives to the travel of staff should result in reduced requirements for travel in the administrative expenses of the Fund in the biennium 2014-2015. Moreover, the Committee considers that the travel-related measures taken by the General Assembly in its resolution 67/254 A will result in further savings in the budget. In addition, the reduction in the number of new posts recommended by the Committee in paragraphs 30, 38, 39 and 40 above should allow further reductions in the requirement for travel resources in the biennium 2014-2015. The Committee therefore believes that a reduction in the Fund's overall travel budget is merited, and recommends that the Assembly approve a reduction of $186,200, or 5 per cent, in the travel resources proposed for the biennium 2014-2015 under both administrative and investment costs. The Committee trusts that expenditure on travel will be further adjusted in the biennium 2014-2015, commensurate with the actual number of approved new posts. The Committee also recommends that the Assembly request that the Board carefully monitor the use of resources for the travel of staff.**

Integrated pension administration system implementation

46. According to the Pension Board's report, all pre-implementation activities relating to the Integrated Pension Administration System were completed in the biennium 2012-2013 (see A/68/303, para. 13) and the System is on target to be implemented in 2014 (ibid., para. 16). The Advisory Committee notes that the implementation of IPAS will lead to more efficient use of resources, increased operational capacity and improvements in service levels (ibid., para. 43). In addition, as a result of the implementation of the System, the 2014-2015 budget proposal includes efficiency gains in the order of $3.4 million from the decommissioning of the Fund's mainframe computer and by reducing significantly the level of required contractual services from the International Computing Centre. Upon enquiry, the Committee was informed that, based on the results of the high-

level business case presented to the Pension Board in 2008 (JSPB/55/R.22), the new target operating model of the System was expected to yield savings of $2.3 million per annum.

47. In this regard, the Advisory Committee notes that the Board of Auditors, in its report on the financial statements of the Pension Fund for the period ended 31 December 2012, indicated that it had performed a high-level overview of the Integrated Pension Administration System project and that no significant risks had been identified (A/68/303, annex VIII, para. 75). The Fund agreed with the Board's recommendations to closely monitor the enterprise resources planning initiatives of member organizations and progress in improving contribution reporting in order to ensure that the monthly reconciliation function could be realized by member organizations in a timely manner. The Board of Auditors further noted that there was no integrated information system in place to produce the related financial statements, and recommended that the Pension Board review and implement strategies to further enhance the financial reporting process and continue to closely monitor the timely implementation of the System and other projects, in particular regarding accounting functions, in order to ensure a full and successful realization of benefits in IPSAS implementation. **The Advisory Committee expects that the recommendation of the Board of Auditors will be implemented in a timely manner.**

48. The Advisory Committee recalls that, in its previous report on the administrative expenses of the Fund, it had indicated its expectation that, with the completion and anticipated benefits of the Integrated Pension Administration System in 2014, the requirements for resources would be proportionately reduced in future budget submissions (see A/66/7/Add.2, para. 36). The Committee notes that, while the overall budget for the biennium 2014-2015 is reduced by $19,468,200 before recosting, or 10 per cent, this reduction in the budget is mainly attributable to the changes in the accounting treatment of external management fees for small capitalization funds and publicly traded real estate (see para. 43 above), and to the reduced requirements for the development of the System. **While the Advisory Committee welcomes the progress made in the implementation of the Integrated Pension Administration System, it notes that the proposed budget for the administrative expenses of the Fund in the biennium 2014-2015 reflects a significant increase, in real terms, compared with 2012-2013. The Committee will keep the growth of the budget of the Pension Fund under close review and expects that future submissions for the Fund will reflect efficiencies and savings stemming from the implementation of the System.**

Medical standards

49. The Advisory Committee recalls that, on the basis of a proposal by the United Nations medical directors working group, the Chief Executive Officer of the Fund, in consultation with a medical consultant, recommended that the Pension Board adopt the standard of "fitness for employment" as the basis for participation in the Fund, under article 41 of the Fund's regulations, and that the Board had decided to defer consideration of this item to the 2013 session (see A/67/9, para. 221). Upon enquiry, the Committee was informed that the Board had discussed the proposed standard for medical examinations for participation in the Fund during its sixtieth session, in 2013, and had determined that the issue be left open for further consideration at its next session, in 2014. The Committee was informed that the

Board had cautioned that implementation of the medical standard must be neither discriminatory in determining who should be subject to more intensive medical evaluation, nor prejudicial to persons with disabilities. **The Advisory Committee reiterates its concerns regarding the impact of medical standards for participation in the Fund (see A/67/525, para. 21). Should the Pension Board address this issue in future sessions, the Committee looks forward to considering the Board's recommendations and trusts that such a medical standard for participation in the Fund would have no adverse impact on the possibility for employment of persons with disabilities in participating organizations.**

After-service health insurance

50. The Advisory Committee, in its report on managing after-service health insurance liabilities (A/68/550), noted that the funding of after-service health insurance benefits was an issue of system-wide concern and that, in the long term, it would be best resolved by adopting a system-wide approach similar to that currently employed by the Fund for retirement and disability benefits. The Committee was also of the view that, given its experience in administering retirement and disability benefits, the Fund would have the requisite competence to manage the resources for, and the payment of, after-service health insurance benefits as well (see A/68/550, para. 13).

51. The Advisory Committee notes that, under the Pension Fund's regulations, contributions made by participating organizations on behalf of employees that separate with less than five years of contributory service are retained by the Fund. Upon enquiry, the Committee was informed that, while the Fund does not track this information from year to year, the total amount retained by the Fund pertaining to contributions made by participating organizations on behalf of employees that separate with less than five years of contributory service was estimated at more than $85 million in 2012. The Committee recalls its recommendation that the Secretary-General examine possible options with the objective of broadening the mandate of the Fund to include the administration of after-service health insurance benefits on a system-wide basis (see A/68/550, para. 13). **In this regard, the Advisory Committee recommends that the General Assembly request the Fund to provide information on the cumulative balance of contributions made by participating organizations on behalf of employees that separate with less than 5 years of contributory service in the context of the proposed programme budget for the biennium 2016-2017.**

IV. Membership of the Investments Committee

52. Article 20 of the Regulations and Rules of the Pension Fund stipulates that the members of the Investments Committee shall be appointed by the Secretary-General after consultation with the Pension Board and the Advisory Committee, subject to confirmation by the General Assembly. Accordingly, the Secretary-General conveyed to the Board and the Committee the names of two regular members for reappointment, two ad hoc members for appointment as regular members and one ad hoc member for reappointment. **The Advisory Committee communicated its concurrence with those proposals in a letter to the Secretary-General dated 11 October 2013.**

V. Conclusions and recommendations

53. The Secretary-General, in his report on the administrative and financial implications arising from the report of the Board (A/C.5/68/2), states that, should the General Assembly approve the proposals and recommendations of the Board, the overall requirements that would arise for the United Nations would be estimated at $21,324,700 (at 2012-2013 rates). Of the total requirements for 2014-2015, the cost of the regular budget would amount to $13,370,600, and the balance of $7,954,100 would be reimbursed to the United Nations by the United Nations Development Programme, the United Nations Population Fund and the United Nations Children's Fund. Accordingly, should the Assembly endorse the proposals of the Board, the appropriation under section 1, Overall policymaking, direction and coordination, of the proposed programme budget for the biennium 2014-2015, would reflect a reduction in the amount of $561,400.

54. **Subject to the recommendations contained in the present report, the Advisory Committee recommends that the General Assembly approve the recommendations of the Pension Board as contained in paragraph 152 of its report (A/68/303).**

Annex

United Nations Joint Staff Pension Fund

Summary of new posts proposed by the Pension Fund secretariat and Pension Board for 2014-2015

		Proposed by the Pension Fund secretariat		*Proposed by the Pension Board*		*Recommendation of the Advisory Committee*	
Section	*Post*	*Number of posts*	*Category/ level*	*Number of posts*	*Category/ level*	*Number of posts*	*Category/ level*
Administration							
Programme of work							
Risk Management and Legal Service	Chief of Service	1	D-1	1	D-1	1	D-1
	Team Assistant	1	GS (OL)	1	GS (OL)	1	GS (OL)
Financial Services Section	Accountant	1	P-3	1	P-3	1	P-3
Investments							
Executive direction and management	Representative of the Secretary-General[a]	1	ASG	1	ASG	1	ASG
	Strategy and Analysis Director	1	D-2				
	Special Assistant to the Representative of the Secretary-General	1	P-5	1	P-4		
	Administrative Assistant to the Representative of the Secretary-General	1	GS (OL)	1	GS (OL)	1	GS (OL)
Programme of work							
Investment Section	Director, private markets	1	D-1	1	D-1	1	D-1
North American equities portfolio	Investment Officer	5	P-3	3	P-3	2	P-3
Global emerging markets	Investment Officer	1	P-3	1	P-3	1	P-3
Fixed-income group	Investment Officer, foreign exchange and cash management	1	P-4	1	P-4	1	P-4
	Investment Officer, emerging market debts	1	P-4	1	P-4	1	P-4
Real assets	Investment Officer, real assets	1	P-4	1	P-4		
	Investment Officer, real assets	1	P-3	1	P-3	1	P-3
Alternative assets	Investment Officer, hedge funds	1	P-4	1	P-4	1	P-4
	Investment Officer, alternative investments	1	P-3	1	P-3		
	Investment Assistant	1	GS (PL)	1	GS (PL)	1	GS (PL)
Trade execution team	Trade Execution Officer	1	P-3	1	P-3	1	P-3
	Trade Execution Assistant	1	GS (PL)	1	GS (PL)	1	GS (PL)

Section	Post	Proposed by the Pension Fund secretariat: Number of posts	Proposed by the Pension Fund secretariat: Category/ level	Proposed by the Pension Board: Number of posts	Proposed by the Pension Board: Category/ level	Recommendation of the Advisory Committee: Number of posts	Recommendation of the Advisory Committee: Category/ level
External management group	External Manager	1	P-4	1	P-4	1	P-4
Risk and Compliance Section	Compliance Officer	1	P-3	1	P-3	1	P-3
Operations Section	Chief Operating Officer	1	D-1	1	D-1	1	D-1
	Accountant	1	P-4	1	P-4	1	P-4
	Finance Officer	1	P-3	1	P-3	1	P-3
	Senior Accounting Assistant	1	GS (PL)	1	GS (PL)	1	GS (PL)
Programme Support							
Information Systems Section	Data Security Administrator	1	P-3	1	P-3	1	P-3
	Data Management Officer	1	P-3				
	Information Security Officer	1	P-3				
	Administrative Assistant	I	GS (OL)				
	Total	**33**		**27**		**23**	

Abbreviations: ASG, Assistant Secretary-General; GS (OL), General Service (Other level); GS (PL), General Service (Principal level).

[a] Subject to the recommendation of the Advisory Committee contained in paragraph 28 of the present report.