

Statement by Mr. Warren Sach
Representative of the Secretary-General for the investments of the
United Nations Joint Staff Pension Fund
Fifth Committee
24 October 2012

Mr. Chairman and distinguished Members of the Committee,

1. I have the honour to introduce the Report of the Secretary-General on the **Investments of the United Nations Joint Staff Pension Fund and measures undertaken to increase the diversification of the United Nations Joint Staff Pension Fund (A/C.5/67/2)** and the Note by the Secretary-General on the membership of the Investments Committee.

2. These documents address:

- I. a brief discussion on the performance of the Fund's investments;
- II. changes during the biennium through 31 March 2012;
- III. diversification;
- IV. investments in developing countries;
- V. the membership of the Investments Committee.

Performance of the Fund's investments:

3. Over the two-year reporting period through 31 March 2012, we have continued to see extremely high volatility in the capital markets worldwide. The Fund, facing this situation, has continued to take steps to protect its assets by increasing diversification, as well as acquiring some low volatility assets. The high volatility in the markets is reflected in the changes in the value of the principal of the Fund. One very pertinent reflection is given by the change in the level of the Fund from USD 39.7 billion as of 31 December 2011 compared to its all-time high of USD 44.5 billion reached recently in September 2012.

4. For the fiscal biennium ending 31 March 2012, the total Fund increased by approximately 12.3 per cent from USD 38.3 billion in March 2010 to USD 43.1 billion in March 2012. For the two-year period, this represented an annualized return of 6.09 per cent compared with 7.42 per cent of the 60/31 benchmark. The equity portfolio 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. For the same 2-year period ended 31 March 2012, the Fund's bond portfolio returned 6.39 per cent, outperforming the Barclays Global Aggregate index return of 6.20 per cent by 19 basis points.

5. Before leaving the issue of performance of the investment portfolio, I would like to recall that the issue was addressed at the Board where it was pointed out that the most significant component of underperformance regarding the benchmark in 2011 reflected the decision to avoid excessive risks by reducing the holdings of certain peripheral European

sovereign debt which although high yielding had high risk. Since the beginning of the financial crisis, sovereign debt in that high-yielding but risky group was reduced from 6.92 per cent of the bond portfolio to 1.13 per cent in mid-2012. Equity holdings in the peripheral European equity portfolio were also reduced over the same period from 5.15 per cent to 0.5 per cent.

6. For the current year 2012, the Fund returned 10.36 per cent as of 30 September 2012. This exceeded the benchmark of 9.93 per cent by 43 basis points for the nine month period. In order to bring some perspective on the performance of the Fund over time, I would like the Committee to note that over the last 15 years, the Fund achieved an annualized return of 6.9 per cent, outperforming the 6.2 per cent return of the 60/31 benchmark. The annualized total rate of return over the 50-year period was 8.2 per cent, representing a real rate of return of 3.8 per cent after adjustment by the United States CPI. A myriad of events ranging from political to economic to natural disasters around the world in 2010 and 2011 were the cause of major disruptions in real economic activity. This heightened market volatility and encouraged aggressive risk aversion/pursuit behaviour among investors. Fiscal concerns in Europe resurfaced numerous times in 2010 and 2011 and had a negative impact on sovereign risks across the continent and around the globe.

Changes during the biennium:

7. Over the last few years, the Fund has striven to update, develop and strengthen its technology infrastructure and systems including Charles River, SWIFT, RiskMetrics and MUREX to support our implementation of IPSAS. In parallel, with the activities I just mentioned, we have also fine-tuned our investment techniques to meet the needs of the day regarding high volatility in capital markets. In this respect, we have deployed some limited indexation arrangements. These systemic improvements create an infrastructure which will benefit the Fund for years to come, reducing transaction costs as well as enhancing the security of fund transfers. With an improved infrastructure, the Fund is now a safer client, meeting the highest industry standards.

8. IMD has also expanded the use of Riskmetrics with the use of various stress tests and scenario testing to guide asset allocation decisions and portfolio balancing.

9. In March 2011, IMD deployed Exchange Traded Funds (ETFs) as a cost-effective way to rapidly adjust the asset allocation which helped IMD attain the desired equity weight. The Fund was a net seller of equities by approximately USD 850 million during the third quarter of 2011 with the majority of transactions executed in July before the markets plummeted in August. Without using ETFs, the Fund could not have sold that quantity of equities in such a timely manner.

10. As part of IMD's strategy to efficiently invest its cash balances, IMD invested in an equity ETF to track the MSCI All Country World Minimum Volatility Index for potential return enhancement while limiting downside risk in the face of highly volatile markets. The index is designed to minimize equity volatility within constraints and 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.

11. In June 2010, in its efforts to expand its asset classes, the Investment Management Division hired a Senior Investment Officer (SIO) for Alternative Investments. IMD also

signed a contract with a non-discretionary private equity adviser to provide guidance regarding private equity managers.

12. In June 2010, IMD also began its private equity investing, and by March 2012, the Fund had committed approximately USD 530 million to seven private equity funds. The total adjusted market value of UNJSPF's private equity investment as of 31 March 2012 was approximately USD 125.3 million.

13. In November 2010, IMD began investing in commodities as a component of real return strategies. The long-term strategic allocation to this strategy is expected to provide an effective means of hedging against inflation risk. As of 31 March 2012, the Fund's commodities investment generated a 0.5 per cent positive return, compared to the -3.3 per cent fall in the Dow Jones-UBS (DJUBS) benchmark.

14. As regards to technical improvements, I would point out that in an overall effort to improve **transparency**, IMD has instituted this year the posting of weekly reports with commentary on the UNJSPF website. The link is: imd.unjspf.org.

Mr. Chairman,

Diversification

15. The Fund is committed to pursuing a policy of broad diversification of its investments by currency, type of asset class and geographical area which remains a reliable method of improving the risk return profile of the Fund's portfolio over the long run.

16. 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 were decreased to 25.4 per cent from 29.3 per cent as a risk management measure, 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.

Investments In Developing Countries

17. UNJSPF continues to make every effort to increase its investments in developing countries while being mindful of the overall investment criteria and strategy of the Fund. The portfolio is invested directly and indirectly in more than 40 countries worldwide, including 10 African countries. Using the Morgan Stanley Capital International (MSCI) index, 21 countries are defined as Emerging Markets and 26 countries as Frontier Markets. Currently, the weight of the equity holdings of the UNJSPF in Emerging markets exceed the market weight for this group in the MSCI Index. In addition, the Fund is also using Private equity placements with IFC to enhance holdings in developing countries.

18. In summary, IMD's direct and indirect investments in developing countries show a 23 per cent increase from holdings of USD 4.8 billion on 31 March 2010 to USD 5.9 billion on 31 March 2012. The Committee should note that the increases were in the developing Asia, Africa, Europe and Latin American regions. IMD held Investments Committee meetings in Botswana and in South Africa in February 2012. In addition, IMD staff has visited and prospected for investment opportunities in Ghana, Kenya, Mauritius, Nigeria and Tanzania during the period under review. The Fund continues to review its exposure in these markets in search of suitable and rewarding investment instruments.

IC membership

19. With regard to the membership of the Investments Committee, I would like to inform you of the Secretary-General's intention to reappoint the following three members: Mr. Emilio Cárdenas (Argentina) as a regular member through December 2013, at the end of which he would have served out his maximum term of 15 years; Ms. Linah Mohohlo (Botswana) as regular member for a three-year term; and Mr. Ivan Pictet (Switzerland) as an ad-hoc member for a one-year term. All three members expressed their willingness and appreciation to carry out this important public service. In accordance with established procedure, the Pension Board has been consulted on these proposals. The Secretary-General draws on expertise as necessary to serve on the Investments Committee and has on various occasions appointed ad-hoc members to the Committee towards this end. Therefore, he also intends to appoint Ms. Cecilia Reyes (Philippines) and Mr. Gumersindo Oliveros (Spain) as ad-hoc members of the Investments Committee, each for a one-year term commencing 1 January 2013. The Board endorsed these proposals. The Secretary-General wishes to express his sincere appreciation and gratitude to the members of the Investments Committee for their ongoing dedicated service to the Fund.

Summary

20. In conclusion, Mr. Chairman, with regard to the performance of the Fund, it is like most Funds experiencing swings in the markets. As of yesterday's numbers, the Fund stood at USD 44 billion and on this basis, the Fund has returned 10.36 per cent in 2012 to date. Market performance has improved because of ECB action in late August and in the United States, the implementation of QE3. It is important to note that the Fund is still achieving its long-term 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. The Fund has taken steps to enhance and diversify the portfolio by widening its asset classes to include alternative assets such as private equity and commodities. It needs to, and will do, more of this in the future. This will need to be supported in future budget provisions. The Fund is also moving further into Emerging Markets and Frontier Markets. The Fund has also come up with a more efficient and cost effective way of implementing its tactical asset allocation by using ETF's. The Fund aims to lower its transaction costs, obtain best execution, and expects to achieve those goals by establishing a trade execution team which will be supported by the improved technological infrastructure. Also, Governing Bodies have drawn attention to the need to carefully monitor the portfolio, in particular, the individual investments within the equity portfolio. Accordingly, we have added procedures to the investment manual, specifically, to automatically review holdings as a consequence of market price movements in order to minimize losses. Also, while IMD fully understands the concerns that were raised about unrealised losses, I would like to draw your attention to the unrealized gains, for the same period. These amounted to USD 6.2 billion as of 31 December 2011 and more than off set the unrealized loss of USD 1.5 billion during the same period. At this juncture, despite uncertainties present in the markets, IMD is optimistic about future performance and its ability to continue to safeguard the Fund and build a stronger foundation with the support of the staff and investment tools added during the current biennium. Finally, I would point out that our progress in enhancing **transparency** of the investments operations is reflected in both the formal accounting statement and monthly update reports on the internet.

21. Thank you, Mr. Chairman. I would be happy to answer your questions with the assistance of IMD staff.