

*Statement by the Representative of the Secretary-General to introduce:*

*(1) 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 Fund (A/C.5/71/2); and*

*(2) The Note by the Secretary-General on the membership of the Investments Committee (AC.2141)*

I appreciate your time today to review the investments of the United Nations Joint Staff Pension Fund. The purpose of my presentation today is 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 Fund (A/C.5/71/2) and the Note by the Secretary-General on the membership of the Investments Committee (AC.2141).

These documents address the following issues: performance of the Fund's investments during the calendar biennium, from 1 January 2014 to 31 December 2015; diversification of the Fund's investments; changes during the biennium; and

membership of the Investments Committee. I will focus on the highlights from these documents, and I will also provide an update on 2016 performance.

## **Investment Performance**

The investment performance of the Fund fell short of the 3.5 per cent real rate of return target in 2014 and 2015; and the Fund is making good progress towards its 3.5 per cent target in 2016. As at 25 November 2016, the Fund's nominal year-to-date return was 3.82 per cent. The nominal return is equal to the real return plus inflation, as measured by US CPI. With CPI currently running at approximately 2 per cent per annum, the nominal return target for 2016 is approximately 5.5 per cent. This is more conservative than the 7.5 per cent nominal return target for the average large U.S. public pension fund, as reported in the Milliman Public Pension Funding Study. It is important to note that our 3.5 per cent target is a long-term goal. We do not expect to achieve this return each and every year. Over the long-term, historically, we have achieved this 3.5 per cent target, as reflected by our funded status of 100.9 per cent. This compares favourably to the 69.8 per cent aggregate funded ratio of the average large U.S. public

pension fund, as at 30 June 2016, as reported by Milliman. In fact, the UNJSPF is one of the few pension plans in the world to have fully funded status, making the UNJSPF one of the best pension plans in the world.

As mentioned earlier, we also compare the nominal returns of the Fund to the policy benchmark, which is a weighted average of the benchmark and the target weighting for each asset class. The policy benchmark serves as a near-term indicator of the Fund's investment performance. The Fund's nominal return does not always exceed the policy benchmark return. Over the last 22 years, the Fund's return exceeded the policy benchmark return in 12 years and fell short in 10 years. The Fund's nominal return exceeded the policy benchmark by 10 basis points in 2015, but fell short in 2014 and is also falling short during 2016. The primary reason for the 2016 experience is due to the fact that the market cycle favoured passive management over active management and our portfolios are actively managed. We have confirmed that the performance of most of our portfolios is in line with that of other active managers, and we are seeing early

indications that the market cycle may be returning to a period which favours active management.

In terms of Market Value of Assets, the Fund stood at US\$ 53.89 billion as at 25 November 2016, which is approximately US\$ 1 billion more than the US\$ 52.82 billion market value of assets as at 31 December 2014. Net and net, this represents more than capital preservation during a challenging market environment.

### **Strategic Asset Allocation**

An important milestone was the Asset Liability Modelling (ALM) study, which was completed on 1 August 2015, when the policy benchmark was updated to reflect the Fund's new target weightings for each asset class. The new SAA was memorialized in the Investment Policy Statement (IPS), which was amended in 2015 and updated in July 2016. As 90 per cent of a pension plan's returns are typically attributed to its asset allocation policy, this was a very important accomplishment.

## **Diversification in Developing Countries**

In addition to diversifying across asset classes, the Fund's investments comply with resolution 70/248 of the General Assembly to increase the geographic diversification of the UNJSPF. As reported in A/C.5/71/2, growth in investments in developing countries was achieved during the biennium, while maintaining the Fund's four criteria of safety, liquidity, convertibility and profitability.

## **Environmental, Social and Governance (ESG) investing**

Efforts have been made to improve the Fund's Environmental Social and Governance ("ESG") profile, with an emphasis on climate change, in a way which is consistent with the UNJSPF's return objectives. Success in this area has been recognized by Principles for Responsible Investment (PRI) and Asset Owners Disclosure Project (AODP), who both awarded the Fund with a grade of "A" for 2015.

## **Anti-Fraud and Anti-Corruption Policy**

In accordance with resolution 70/248 of the General Assembly, the Investment Management Division (IMD) has adopted an anti-fraud and anti-corruption policy, which will supplement the UN Secretariat's Anti-Fraud and Anti-Corruption Framework (ST/IC/2016/25) and the General Assembly resolutions against fraud and corruption as well as the UN Convention against corruption. All IMD staff are held accountable to all of these policies and standards.

## **Investments Committee Membership**

On the topic of Investments Committee membership, we provided the ACABQ with an update recently, noting the resignation of Mr. Arikawa of Japan. Efforts are underway to identify a suitable replacement for this esteemed member of the Committee, and efforts continue to identify additional regular and ad hoc members, with a focus on geographic and gender considerations.

## **Conclusion**

As RSG, it is my fiduciary duty to act in the best interest of the participants and beneficiaries while safeguarding the Fund's assets. Many stakeholders are asking what the future will bring. We believe that the markets will continue to be volatile over the near-term; we believe that we are well positioned by adhering to our Strategic Asset Allocation policy; and we believe that the 3.5 per cent real rate of return remains an appropriate long-term investment objective for the Fund. That, in combination with our fully funded status, puts us in an enviable position vis-à-vis similar pension plans. The benefit is secure, and this is truly one of the best pension funds in the world.