

**FOR INFORMATION**

## SEVENTEENTH ITEM ON THE AGENDA

**Pensions questions****(a) Decisions of the United Nations General Assembly on the report of the Board of the United Nations Joint Staff Pension Fund**

1. A summary of the meeting of the Board and its report to the United Nations General Assembly is set out below.

**Investment management**

2. The market value of the assets of the Fund had increased to US\$37.6 billion on 31 March 2007, from US\$33.1 billion on 31 March 2006, representing an increase of 13.6 per cent during the reporting year. After adjustment for inflation, this represented a real rate of return of 10.3 per cent. This performance was slightly below that of the new benchmark and was better than that of the former benchmark.<sup>1</sup> However, the Fund's returns outperformed the new benchmark during the last three-, five- and seven-year periods. The ten-year annualized real rate of return exceeded the Fund's return objective by 2.8 per cent.<sup>2</sup>
3. As investment income has exceeded contribution income for several years, the Fund is becoming increasingly dependent on investment income to finance benefit payments. The management has followed a relatively cautious and defensive strategy of minimizing risk in order to obtain overall positive returns and to preserve the principal of the Fund over a long period. The policy of broad diversification of investments by currency, type of asset class and geographical area continues to be the most reliable method of reducing risk and

<sup>1</sup> In 2006, a new benchmark was introduced to more accurately reflect the Fund's long-term strategic exposures to its asset classes (approximately 60 per cent equities, 31 per cent bonds, 6 per cent real estate, and 3 per cent cash/short-term investments). The tactical short-term asset allocation range is plus or minus three percentage points from the Fund's strategic asset allocation.

<sup>2</sup> The real return objective used in actuarial valuations is 3.5 per cent.

improving returns over long periods of time. All investments must meet the criteria of safety, profitability, liquidity and convertibility.

## Asset-liability management study

4. The Board examined the results of the Fund's first asset-liability management study. The objectives of the study were to recommend an optimal long-term asset allocation and currency strategy for the investments, and to develop a risk framework to test the Fund's ability to meet its long-term obligations. The study provided an independent confirmation of the accuracy of the actuarial valuations and analysed various best/worst case scenarios for different sets of risk/return investment profiles and economic assumptions. It indicated that the Fund's current financial health is stable and recommended three optimal strategic (long-term) asset allocations. The existing guidelines are close to two of these recommendations.

## Budget

5. The proposed budget for the biennium 2008–09 provided for 43 additional posts and was substantially higher than that of prior budgetary submissions. While Board members differed in their views on the reasonableness of the proposed increases, there was general recognition of the need to fill key investment management and client-serving posts to ensure sound operations. The Board's tripartite working group recommended the approval of 27 new posts and deferred other staffing requests while awaiting a human resources long-term strategy document that will be provided to the Board. The final budget is 28 per cent higher than that of the previous biennium.

## Governance

6. The Board's new Audit Committee began its operations last year and meets separately to provide guidance to the Board on internal and external audit matters.<sup>3</sup> The Board discussed a recent internal audit report that indicated that the Fund's existing governance mechanisms generally ensured adequate oversight. The Board examined the Executive Secretary/Chief Executive Officer's paper on the Memorandum of Understanding between the Executive Secretary and the representative of the Secretary-General of the United Nations<sup>4</sup> and expressed satisfaction with recent efforts to improve coordination, as demonstrated in the asset-liability management study. Many members were reluctant to change existing investment management reporting lines without introducing appropriate safeguards and examining recommended guidelines and best practices at other large public pension funds. The Board concluded that the existing governance structure "provides adequate checks and balances, and ensures that the fiduciary responsibility and accountability of the Fund's assets is placed at the highest executive level". The Board also reviewed attendance at meetings, the election process for beneficiary representatives, and the procedures for appointing members of the audit, investment and actuarial committees.

<sup>3</sup> In accordance with the Board's recommendation of 1996, the United Nations Office of Internal Oversight Services (OIOS) acts as internal auditor of the Fund. The UN Board of Auditors (BOA) serves as external auditor of the Fund.

<sup>4</sup> Article 19 of the Fund's Regulations reads as follows: "(a) The investment of the assets of the Fund shall be decided upon by the Secretary-General after consultation with an investments committee and in the light of observations and suggestions made from time to time by the Board on the investments policy."

## Other business

7. The Board approved actuarial assumptions for the next valuation at 31 December 2007. As the United Nations General Assembly would only consider items with budgetary implications in 2007, discussions on other issues that would impact the Fund's regulations or its pension adjustment system were not completed. The Standing Committee of the Board met on 12 July 2007, to examine individual legal appeals.

## Decisions of the United Nations General Assembly on the report of the Board

8. In October–December 2007, the United Nations General Assembly considered the report of the Board<sup>5</sup> and related documents. On 21 December 2007, it adopted draft Resolution A/C.5/61/L.25,<sup>6</sup> which approved all of the Board's recommendations.

Geneva, 28 January 2008.

*Submitted for information.*

<sup>5</sup> A/62/175.

<sup>6</sup> To be published at a later date as General Assembly Resolution A/RES/62/241.