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UNITED NATIONS PENSION SYSTEM

Investments of the United Nations Joint Staff Pension FundReport of the Secretary-General

INTRODUCTION

1. The **Secretary-General presents** herein his annual report on the management of the **investments** of the United Nations Joint Staff Pension Fund (UNJSPF). The investment environment which prevailed in the **reporting** year ended 31 March 1988 is described and information is provided on the investment returns, portfolio **diversification** and the development-related investments of the **Fund**. The data are based on the audited financial accounts for the calendar year and the unaudited appraisals for **the quarter** ended 31 March 1988. In order to provide the General Assembly with the most **timely** information available, some data have been updated to 30 June 1988.

I. ECONOMIC AND INVESTMENT CONDITIONS

2. The year ended 31 March 1988 was **characterized** by strong consumer demand, continued **decline** of the United States **dollar** and **relatively** volatile interest **rates** and financial markets. Inflation was not a **major** factor in most **countries** during 1987, but fears that it might become **one** emerged at the beginning of the first quarter of 1988. The stock markets world-wide experienced, in October 1987, the sharpest decline ever in prices. In the United States, the stock market, measured by the Dow Jones Industrial Averages, lost over 500 points, or about 23 per cent of its value, in one day. The markets in other **countries** also declined sharply.

3. The bond markets world-wide were affected by volatile interest **ratos**. **In** the United **Statos** both short-term and long-term rates started to **rise** in March 1987 and continued to rise, peaking in October 1987 and declining thereafter as a result of increases **in** the **monoy** supply. **In** other **markets** the **direction** of the **interest rates** was **mixed**: some rose while others declined. Owing to the dsprociation of the United States dollar **against** most of the **major** currencies, bonds outside tho **United** States were more attractive than United States bonds.

II. INVESTMENT RETURN

4. The market value **of** **UNJSPF** assets increased to \$US 7,229 million **on** 31 March 1988 from \$7,016 million a year earlier, an increase of \$US 213 million, or **3** per **cent**, and \$919 million above the book value. **Over** the past 38 **years**, the total book value of the portfolio rose from \$13 million to \$6,199 million, a compound **increase** of 17.6 per **cent** a year. **In** the 1987 calendar year, investmont **income** from interest and dividends amounted to \$354.5 million, an **increase** of **7.7** per cent over 1986. The total **of** new funds which became available for investment amounted to \$360 million (contributions **and** investment income, less benefit **payments** and less investment **expenses**). **Realized** capital **gains** amounted to \$698 million, an **increase** of 19.4 per cent,

5. The total investment return for the year ended 31 March 1988 was 3.1 por cent, **which**, **after** adjusting for inflation, represents a negative "**real**" rate of return **of** eight tenths **of** one per **cent** (-0.8). This method of calculation of the investment return takes into account actual **income** received from interest and dividends **as** well as **realized** capital gains and **losses**, and **changes** **in** tho market value of the investments (**unrealized** capital gains or **lcsses** and exchange **rate** fluctuations). The impact of the **flow** of **new** money **into** the Fund at different times throughout the **year** is also incorporated on a **prorated** **basis** in the calculations. The techniques **used** in measuring the investment return **are** in accordance with the standards used by most pension funds.

6. This return **over** the past year, which is considerably lower than in recent **years**, should be viewed against the background **of** the economic and financial conditions **which** existed during the period under review. Taking into **account** the sharp decline in stock prices in October 1987 and the volatility of the financial markets world-wide thereafter, the return can be considered as satisfactory and it compares well with other pension funds.

7. The objective of the Fund is to secure retirement and other related benefits for the participants. The policy of the management of the Fund's investments is therefore geared **to** preserving the principal of the Fund by maintaining a careful balance between risk and reward and assessing the investment returns over the medium-term and the longer-term rather than acting on the basis of short-term investment results, which are not in **themselves** particularly meaningful for a fund such as **UNJSPF**, which has long-term investment objectives. Periods **of** **five** **years** or longer are usually considered to be reasonable **ones** in which to assess the investment results.

8. To provide a longer-term perspective, the annual rates of return over selected periods are shown in table 1 below,

Table 1

Total Fund: compound annual nominal and real rates of return for selected periods up to 31 March 1988

	5 years up to 1988 %	10 years up to 1988 %	15 years up to 1988 %	20 years up to 1988 %	25 years up to 1988 %	28 years up to 1988 %
Nominal	17.32	14.21	9.53	9.42	8.53	8.77
Real (Inflation adjusted)	13.32	7.46	2.54	2.94	2.86	3.35

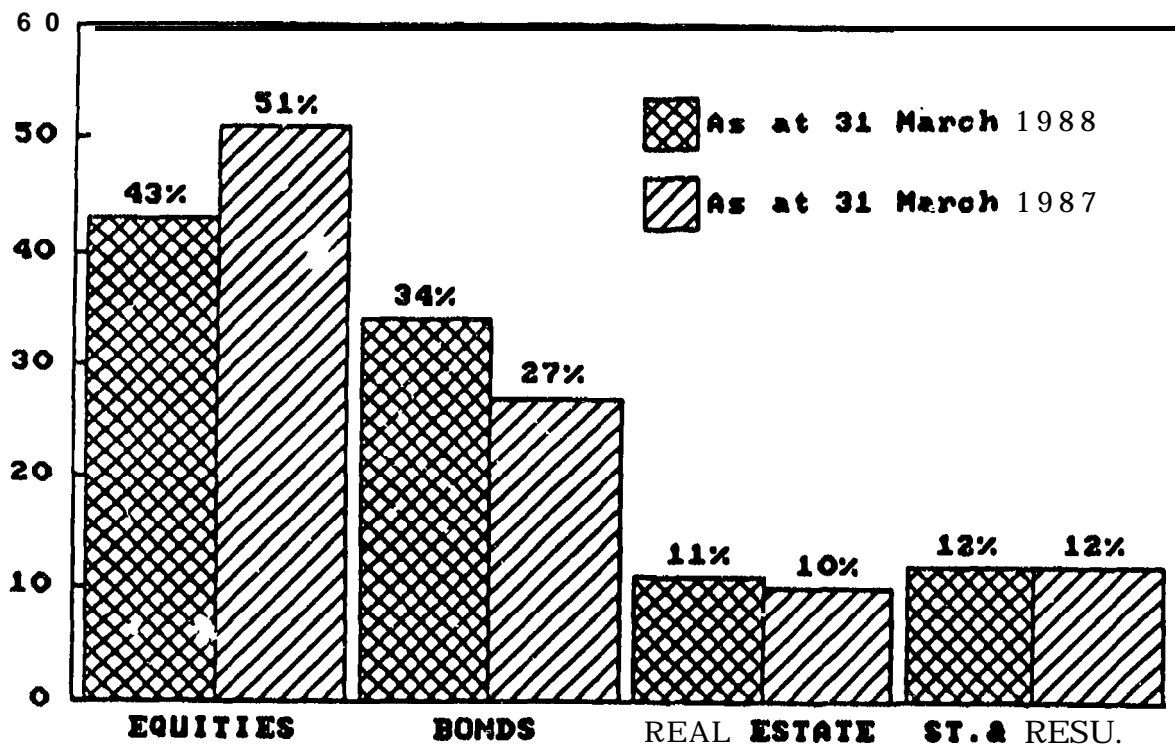
III . INVESTMENT DIVERSIFICATION

9. The policy of broad diversification of the investments by type of security, industry groups, countries and currencies is a basic feature of sound and prudent investment management and has been advocated repeatedly by the Investments Committee, the Pension Board and the General Assembly. 1/ The geographic and **currency** diversification of the assets of the Fund began in 1960. The Fund remains one of the most diversified pension funds in the world. The proportion of the **assets** allocated to particular geographical regions, currencies or types of security is based on long-term assessments of economic and financial market conditions at the time of decision-making. The proportions are adjusted as new information becomes available to **minimize** risk and to benefit from new opportunities.

10. The diversification of the portfolio as at 31 March 1988 is detailed in the various tables in the annex to the present report. Investments were held in 27 different currencies and 44 countries; 51 per cent of the assets were invested in currencies other than the United States dollar, which is the Fund's unit of account. Sixty per cent of the Fund's investments were made in security markets outside the United States, 84.6 per cent in local currencies and 15.4 per cent in United States dollars. The decline in the relative value of the United States dollar during the year under review has heavily influenced the market values of investments outside the United States when expressed in dollars, and has consequently also enhanced the positive rates of return in local currencies after translation into dollars.

11. As shown in the chart below, equities constituted 43 per cent of the assets as of 31 March 1988, down from 51 per cent for the previous year; 45 per cent of these were in United States equities and 55 per cent in other equity markets. Bonds accounted for 34 per cent of the portfolio compared with 27 per cent a year ago, and the breakdown between United States dollar-denominated bonds and other currency bonds was 39 and 61 per cent respectively. Investments in real estate-related securities amounted to 11 per cent of the portfolio compared with 10 per cent a year earlier. In order to preserve the principal of the Fund, a more defensive policy was adopted which consisted of taking profits in selected securities considered to be overvalued and placing the related proceeds in short-term investments or buying undervalued securities. Short-term investments, that is fixed income investments with maturity dates of less than one year, remain unchanged at 12 per cent.

CHART
TOTAL FUND: DIVERSIFICATION OF ASSETS



12. Within the framework of long-term guideline ranges, shifts are made from one section of the portfolio to another as tactical responses to the market situation. After a careful assessment of the prospects of the financial markets around the world following the events of October 1987 and the possible continued weakening of the United States dollar the proportion of assets invested in currencies other than the United States dollar was increased cautiously. Also, as a defensive measure, shifts into bonds were made. Some portions of the short-term reserves was brought back into the United States dollar.

IV. IMPLEMENTATION OF GENERAL ASSEMBLY RESOLUTIONS

13. In response to the requests of the General Assembly, efforts have continued to increase investments in developing countries. As shown in table 2 below, the book value of development-related investments increased in total by 2.9 per cent over the last year, from \$990.5 million to \$1,019.5 million as at 30 June 1988. The investments in development institutions amounted to \$823.8 million compared with \$820.9 million a year ago, an increase of 0.4 per cent; direct investments in specific developing countries increased by 15.4 per cent from \$169.6 million to \$195.7 million. Table 3 shows that the Fund's direct investments and those through regional development institutions in Africa increased by 16.0 per cent to \$110.1 million from \$94.9 million; Latin America increased by 1.0 Per cent to \$194.8 million from \$192.9 million, and Asia increased by 12.1 per cent to \$206.3 million from \$184.1 million. The combined development-related assets as at 30 June 1988 represented 15.1 per cent of the total book value of the Fund. The progress made over the past five years is shown in table 2 below.

Table 2

Development-related investments (book value)
as at 30 June

(Millions of US dollars)

	1983	1984	1985	1986	1987	1988
Specific countries a/	133.2	148.9	177.8	172.5	169.6	195.7
Development institutions b/	420.4	486.9	565.8	611.0	820.9	823.8
Total	553.6	635.8	743.6	783.5	990.5	1 019.5

Table 3Summary of development related investments
(book value) as at 30 June 1988

(Millions of US dollars)

	Currencies other than US dollars	US dollars	Total 1988	Total 1987
Africa	62.3	47.8	110.1	94.9
Asia	179.4	26.8	206.3	184.1
Europe	15.6	1.8	17.4	19.1
Latin America	68.7	126.1	194.8	192.9
Other development institutions <i>b/</i>	86.7	400.2	486.9	499.5
International investment trusts <i>a/</i>	<u>4.4</u>	<u>-</u>	<u>4.0</u>	<u>-</u>
Total	<u>416.7</u>	<u>602.7</u>	<u>1 019.5</u>	<u>990.5</u>

a/ Includes multicountry funds.*b/* Includes World Bank and other international institutions but excludes regional development institutions.

14. Close contacts are maintained with international organisations, regional development institutions, Governments and private sources to ensure full awareness of all investment opportunities in developing countries. Follow-up missions to Africa, the Middle-East and Asia were undertaken during the year.

V. CONCLUSION

15. Considering the dramatic declines in the major financial markets which occurred in the last quarter of 1987, the investment return to the Fund for the year ended 31 March 1988 was better than expected. The decision made in early 1987 to adopt a defensive strategy by taking profits where appropriate, and the diversification policy of increasing investments in those markets which recovered faster after the October 1987 events contributed to the better performance of the Fund.

16. The Secretary-General considers **the** policy **of** diversification and careful selection **of** investment instruments, including the active investigation of **opportunities** in developing countries, to be the best way to achieve the goal **of** preserving the principal and enhancing the investment return of the Fund **over** the **longer** term. **He** will continue to discharge his fiduciary responsibilities through investment decisions which adhere to **the** principles of sound investment management and **accord with** the criteria and values embodied in the resolutions of the **General** Assembly.

Notes

1/ See General Assembly resolution **36/119** of **10** December 1981 **and** earlier resolutions cited **therein**.

Annex

Table 1

TOTAL FUND: COMPONENTS OF PORTFOLIO (BOOK VALUE AND MARKET VALUE)
AS AT 31 MARCH 1988

	<u>Book value</u>		<u>Market value</u>	
	<u>(\$m)</u>	<u>(%)</u>	<u>(\$m)</u>	<u>(%)</u>
<u>Equities</u>				
United States	1 202	19.4	1 403	19.4
Outside United States	<u>1 306</u>	<u>21.1</u>	<u>1 717</u>	<u>23.8</u>
	<u>3 508</u>	<u>40.5</u>	3	<u>43.2</u>
<u>Bonds</u>				
United States	957	15.4	978	13.5
Outside United States	<u>1 278</u>	<u>20.6</u>	<u>1 527</u>	<u>21.1</u>
	<u>2 235</u>	<u>36.1</u>	<u>2 505</u>	<u>34.7</u>
<u>Real estates</u>				
United States	504	8.1	603	a.3
Outside United States	<u>136</u>	<u>2.2</u>	<u>160</u>	- 2 - d
	<u>640</u>	<u>10.3</u>	<u>763</u>	<u>10.6</u>
<u>Short-term investment and reserves</u>				
United States	526	8.5	527	7.3
Outside United States	<u>290</u>	<u>4.7</u>	<u>314</u>	- . - A 3
	<u>816</u>	<u>13.2</u>	<u>841</u>	- 14 - 6
Total	<u>6 199</u>	<u>100.0</u>	<u>7 229</u>	<u>100.0</u>

Table 2

TOTAL **FUND: COUNTRIES OF INVESTMENT (MARKET VALUE) A/**
As AT 31 MARCH 1988

(Millions of US dollars)

	Investments in currencies other than US dollars	Investments in US dollars	Total
Algeria	7.1	4.6	11.7
Australia	116.8	5.0	121.8
Austria	26.7	0.0	26.7
Belgium	17.8	1.4	19.2
Brazil	2.9	0.0	2.9
Canada	457.6	5.7	463.3
China	46.4	0.0	46.4
Costa Rica	0.0	0.7	0.7
Côte d'Ivoire	2.2	2.5	4.7
Denmark	50.9	7.8	58.7
Finland	14.4	0.0	14.4
France	151.8	57.7	209.5
Germany, Federal Republic of	195.7	5.6	201.3
Greece	2.5	0.0	2.5
Hong Kong	78.3	24.2	102.5
Hungary	12.3	0.0	12.3
Iceland	2.1	1.3	3.4
India	14.6	0.0	14.6
International institutions	117.2	134.1	251.3
Ireland	21.9	0.0	21.9
Italy	67.5	0.0	67.5
Japan	580.6	34.1	614.7
Jordan	6.9	0.0	6.9
Kenya	0.5	0.0	0.5
Malaysia	39.6	5.0	44.6
Mexico	13.5	13.8	27.3
Morocco	2.9	0.0	2.9
Netherlands	221.3	0.0	221.3
New Zealand	24.3	20.6	44.9
Norway	29.8	18.7	48.5
Panama	0.0	0.5	0.5
Poland	0.0	2.1	2.1
Portugal	14.9	0.0	14.9
Regional institution (Africa)	73.0	30.8	103.8
Regional institution (Europe)	98.0	0.0	98.0
Regional institution (S-E Asia)	74.9	9.7	84.6

Table 2 (continued)

	Investments in currencies other than US dollars	Investments in US dollars	Total
Regional institution (Lat. America)	70.7	112.2	182.9
Republic of Korea	31.2	3.0	34.2
Singapore	44.3	0.0	44.3
Spain	91.2	1.2	92.4
<i>Sweden</i>	50.7	3.0	53.7
Switzerland	142.3	0.0	142.3
Thailand	3.7	0.0	3.7
Turkey	6.2	0.0	6.2
United Kingdom	656.2	164.1	822.3
USSR	10.9	0.0	10.9
Venezuela	1.3	0.0	1.3
Yugoslavia	0.0	1.6	1.6
Zimbabwe	0.7	0.0	0.7
Total outside United States	<u>3 698.3</u>	<u>671.0</u>	<u>4 369.3 (60%)</u>
United States	<u>15.7</u>	<u>3 844.4</u>	<u>2 860.1 (40%)</u>
Total fund	<u>3 714.0 (51%)</u>	<u>3 515.4 (49%)</u>	<u>7 229.4 (100%)</u>

a/ The country of investment is generally based on the domicile of the issuer. Convertible securities are **classified** according to **the** currency into which they **are** convertible.

b/ Various investment trusts (amounting to \$56.2 million), which trade in currencies other than the currencies **of** the investments, are classified under the **country of investment**.

Table 3

TOTAL FUND: CURRENCIES OTHER **THAN** UNITED STATES DOLLARS
(MARKET VALUE) **AS** AT 31 MARCH 1988

Currency		Equivalent in millions of US dollars a/	Percentage
Australian dollar	\$A	110.8	3.0
Belgian f ranc	RF	17.8	0.5
Brazilian cruza dos	\$Cz	2.9	0.1
Canadian dollar	\$Can	464.3	12.5
Danish krone	DKr	40.0	1.1
Deutsche mark	DM	437.7	11.2
European currency unit	ECU	32.0	0.9
Finnish markka	FmK	4.8	0.1
French f ranc	FF	145.3	3.9
Hong Kong dollar	\$HK	79.0	2.1
Indian rupee	Rs	2.7	0.1
Italian lira	Lit	55.7	1.5
Japanese yen	Y	797.0	21.4
Jordanian dinar	JD	0.9	0.0
Kenyan shilling	KSh	0.5	0.0
Malaysian ringgit	\$M	15.6	0.4
Mexican peso	\$Mex	11.0	0.3
Miscellaneous		19.2 b/	0.5
Netherlands guilder	f.	268.5	7.2
New Zealand dollar	\$NZ	3.0	0.1
Norwegian krone	NKr	19.9	0.5
Pound sterling	f stg.	678.2	18.3
Republic of Korean won	w.	28.9	0.8
Singapore dollar	\$S	47.7	1.3
Spanish peseta	Ptas	115.0	3.1
Swedish krona	SKr	50.4	1.4
Swiss f ranc	SwF	285.2	7.7
Total fund		3 714.0 c/	100.0

a/ Convertible securities are classified according to the currency into which they are convertible.

b/ Includes the **Hong Kong** dollar, the Singapore dollar, the Malaysian ringgit, the Republic of Korean won, and the Philippine peso.

c/ Includes \$56.2 million invested in investment trusts that trade in currencies other than currencies of investments.

Table 4

INVESTMENT IN DEVELOPING COUNTRIES (BOOK VALUE)
AS AT 30 JUNE 1988

(Thousands of US dollars)

	Currencies other than US dollars	US dollars	Total
<u>Africa</u>			
Algeria	5 197	4 900	10 097
Côte d'Ivoire	1 036	2 000	3 036
Kenya	219		319
Morocco	2 403		2 403
Zimbabwe	<u>433</u>	<u>-</u>	<u>433</u>
	<u>10 088</u>	<u>6 900</u>	<u>16 988</u>
Development institutions	<u>52 236</u>	<u>40 906</u>	<u>93 142</u>
Total Africa	<u>62 324</u>	<u>47 806</u>	<u>110 130</u>
<u>Asia</u>			
China	26 208	8 787	34 995
India	13 726	-	13 726
Jordan	6 809		6 809
Malaysia	32 683	4 932	37 615
Republic of Korea	11 640	2 951	14 591
Singapore	30 803		30 803
Thailand	<u>2 508</u>	<u>- - - -</u>	<u>2 508</u>
	<u>124 377</u>	<u>16 670</u>	<u>141 047</u>
Development institutions	<u>55 050</u>	<u>10 176</u>	<u>65 226</u>
Total Asia	<u>179 427</u>	<u>26 846</u>	<u>206 273</u>
<u>Europe</u>			
Yugoslavia	<u>0</u>	<u>1 840</u>	<u>1 840</u>
	<u>0</u>	<u>1 840</u>	<u>1 840</u>
Development institutions	<u>15 598</u>	<u>-</u>	<u>15 598</u>
Total Europe	<u>15 598</u>	<u>1 840</u>	<u>17 430</u>

Table 4 (continued)

	Currencies other than US dollars	US dollars	Total
Latin America			
Brazil	4 929		4 929
Costa Rica		688	688
Mexico	14 036	10 884	24 920
Panama		484	484
Venezuela	<u>888</u>	<u>-</u>	<u>888</u>
	<u>19 853</u>	<u>12 056</u>	<u>31 909</u>
Development institutions	<u>48 850</u>	<u>114 075</u>	<u>162 925</u>
Total Latin America	<u>68 703</u>	<u>126 131</u>	<u>194 834</u>
Other development institutions	<u>86 669</u>	<u>400 193</u>	<u>486 862</u>
International investment trusts	<u>4 000</u>	<u>-</u>	<u>4 000</u>
Total development-related investments	<u>416 721</u>	<u>602 816</u>	<u>1 019 537</u>

Table 5

TOTAL FUND: **COMPONENTS OF PORTFOLIO** (MARKET VALUE)
AS AT 31 MARCH

(Millions of US dollars)								
<i>Period ending</i>	31/03/84	31/03/85	31/03/86		31/03/87		31/03/88	
				%		%		%
<u>Equities</u>								
United States	983	1 333	2 004	36	1 671	24	1 403	19
Outside United States	<u>760</u>	<u>761</u>	<u>1 306</u>	23	<u>1 920</u>	27	<u>1 717</u>	24
	<u>3 743</u>	<u>2 094</u>	<u>3 310</u>	59	<u>3 591</u>	51	<u>3 120</u>	43
<u>Bonds</u>								
United States	734	684	800	14	675	10	978	13
Outside United States	<u>654</u>	<u>624</u>	<u>888</u>	16	<u>1 213</u>	17	x-321.	21
	<u>1 388</u>	<u>1 306</u>	<u>1 688</u>	30	<u>1 888</u>	27	<u>2 505</u>	34
<u>Real estates</u>								
United States	277	350	354	6	554	8	603	9
Outside United States	<u>37</u>	<u>46</u>	<u>66</u>	1	<u>141</u>	2	<u>160</u>	2
	<u>314</u>	<u>396</u>	<u>420</u>	7	<u>695</u>	10	<u>763</u>	11
<u>Short-term investment and reserves</u>								
United States	102	75	195	4	587	8	527	7
Outside United States	<u>50</u>	<u>52</u>	<u>0</u>	0	<u>255</u>	4	<u>314</u>	5
	<u>152</u>	<u>127</u>	<u>195</u>	4	<u>842</u>	12	<u>841</u>	12
Total	<u>3 597</u>	<u>3 925</u>	<u>5 613</u>	100	<u>7 016</u>	100	<u>7 229</u>	<u>100</u>
Percentage change from year to year								
		<u>9.12</u>	<u>43.01</u>		<u>25.00</u>		<u>3.04</u>	