



FEDERATION OF ASSOCIATIONS OF FORMER INTERNATIONAL CIVIL SERVANTS  
FÉDÉRATION DES ASSOCIATIONS DES ANCIENS FONCTIONNAIRES INTERNATIONAUX  
FEDERACION DE ASOCIACIONES DE EX-FUNCIONARIOS INTERNACIONALES

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## **Review of the Investments of the UNJSPF**

**Information note by Warren Sach**

**FAFICS member of the ALM Committee and Project Team member for the Review**

A review of UNJSPF investments was launched on Friday, 10 February with the convening of a kick off meeting of the Assets and Liabilities Monitoring Committee's Steering Committee. It was also announced that Deloitte Touche had been awarded a competitively bid contract to undertake an independent third party review of the investments of the UNJSPF.

The Pension Board, at its 63rd session in July 2016, agreed to have an in-depth review conducted by an independent expert considering the main practices, investment management and risk management of the fund. This review would be conducted in relation to those of other global pension funds/financial institutions. This decision was taken despite the fact that the Fund had achieved a positive actuarial balance and was fully funded. The reason was that both these excellent results were wholly dependent upon fulfillment of the assumption that the investments of the Fund would achieve a 3.5% real rate of return in the long run. The Board was also concerned with the recent under-performance of the investments of the Fund.

The Pension Board had further decided that it should receive the results of the third party review in time for consideration at its 2017 session. Accordingly, the Assets and Liabilities Monitoring Committee of the UNJSPB has been providing oversight and terms of reference for the review. The terms of reference for the third party study were finalized by the ALM Committee after due consultation with the Department of Management of the UN. This was done with the full participation of FAFICS designated members, not only of the ALM Committee, but also of its Steering Committee and of the Steering Committee's Project Team. These elaborate governance arrangements have been constructed so as to ensure the independence of the third party review while at the same time providing the review with access to all necessary information and views.

Selection of the third party to undertake the investment system consultancy which resulted in the appointment of Deloitte Touche was a procurement exercise undertaken for the UN by UNOPS

so to ensure both timeliness and independence. The technical evaluation of bid proposals was undertaken with the participation of FAFICS and Executive Heads representatives.

The scene was set for the Deloitte staff work on the investment review to commence on Monday, 13 February. The first Project Team meeting was scheduled for Wednesday, 15 February. An initial meeting of the team was held on Wednesday, 15 February, but without the participation of the RSG and IMD staff; consequently progress was limited to reviewing documents requested by the Deloitte team. A further meeting of the Project Team was set for Friday, 17 February, but was postponed at the last moment due to the non-availability of the RSG and the staff of IMD. Nevertheless, the Deloitte consultants continued their work preparing their report on the current status of investment arrangements for the gap analysis that is an intrinsic part of their review. Consultations regarding the next meeting of the Project Team, scheduled for Friday, 24 February are ongoing.

The documents below provide details of not only the formal terms of reference for the study but also the membership of the Steering Committee and of the Project Team.

The scope of the third party review will cover:

- a. Investment management;
- b. Risk management;
- c. Investment limits and compliance;
- e. Performance measurement;
- f. Investment reporting.

#### Annexes

Terms of reference of the independent review of UNJSPF investments to be undertaken by Deloitte Membership of the ALMC Steering Committee and of its Project Team

**RFPS-  
Annex A  
Statement of Work**

**INDEPENDENT REVIEW OF UNITED NATIONS JOINT STAFF PENSION FUND  
INVESTMENT MAIN PRACTICES, INVESTMENT MANAGEMENT  
AND RISK MANAGEMENT**

**I. INTRODUCTION**

**A. Background**

1. At the request of the Pension Board at its sixty-third session in July 2016, the United Nations Joint Staff Pension Fund (UNJSPF or “Fund”) seeks to obtain the services of an independent third party (“Service Provider”) to conduct an independent assessment and peer-comparison of the Fund’s main practices, investment management and risk management. This study will not review, consider or make any recommendations for any changes to the overall bifurcated governance structure of the Pension Fund, including the fiduciary duty of the Secretary-General for the investment of the assets of the Pension Fund in accordance with article 19 of the Fund’s Regulations, or the role and function of the Investments Committee in accordance with article 20 of the Fund’s Regulations.

2. Bearing in mind the recently approved investment policy document, the review will aim to provide a clear and holistic assessment of the current state of the Fund’s main practices, investment management and risk management, a comparison with such practices, investment management and risk management of other investment operations of the Fund’s peers, an identification of the strengths, of the Fund’s main practices, investment management and risk management and any opportunities for their improvement. Moreover, the study is not intended to evaluate the performance of any officials involved in the management of the investments of the Fund, including members of the Investment Committee and the Fund’s investment advisors.

3. The management of the Fund, its Board and its Actuaries have all concluded that investment return is the single most important aspect for ensuring the Fund’s long-term sustainability and actuarial solvency. Changes in investment return could have a significant impact on the contribution rate of participants and their employing organizations, and this impact is only expected to increase in the coming years. In this respect, the Fund’s main practices, investment management and risk management must ensure the Fund’s long-term investment and financial management objectives are achieved in a manner consistent with the Fund’s established risk appetite and investment policy.

**B. Role and Responsibilities of the Provider**

4. The Service Provider will issue a comprehensive report to the Pension Board, via its Assets and Liabilities Monitoring Committee (“ALM Committee”), and to the Secretary-General with its review of the Fund’s main practices, investment management and risk management with the

objective of assisting both the Secretary-General and the Fund's Board in identifying ways to ensure or improve the financial sustainability of the Pension Fund by recommending, where applicable, possible measures to be considered by the Secretary-General to improve the effectiveness, efficiency, transparency, control and risk management of the Fund's main practices, investment management and risk management and to ensure that the Fund's long-term investment and financial management objectives are achieved in a manner consistent with the Fund's established risk appetite and investment policy. The Service Provider is expected to evaluate UNJSPF main practices, investment management and risk management independently and against best practices and in comparison to public pension funds or financial institutions having a similar size, scope and investment objectives to the Fund.

## **B. Overview of the Fund**

5. The UNJSPF was established in 1948 by the General Assembly of the United Nations ("UN"), as a subsidiary organ of the General Assembly, in order to provide retirement, deferred, death, disability and related benefits for the staff of the UN, of UN System organizations, and other international intergovernmental organizations that participate in the UN Common System of salaries, allowances and benefits. Including the United Nations, the Fund currently has 23 member organizations. The Fund thus operates as a multi-employer, defined-benefit pension plan. The Fund has a fixed contribution rate of 23.7% of pensionable remuneration, one-third of which is paid by staff members of the member organizations from their salaries and the other two-thirds of which is paid by their employing organizations. In accordance with regulations for the operations of the Fund adopted by the General Assembly, the Fund pays defined benefits for retirement, disability and death.

6. As of 31 December 2015, the UNJSPF had over 126,000 active participants and was paying over 71,000 periodic benefits. During 2015, the Fund received US \$2,257 million in contributions from participants and their employing organizations, and paid out US \$2,361 million in benefits. Thus, the current gap of benefits paid out versus contributions received by the Fund is relatively small, totaling some \$110 million, and is expected to grow only gradually over time. Income from investments is expected to be sufficient to cover that gap for the foreseeable future, and according to the latest actuarial valuation of the Fund, the principal of the Fund is not expected to have to be utilized during the next 50 years.

7. Benefits from the Fund are calculated initially in US dollars, but beneficiaries may make an irrevocable election to receive benefits in other currencies. These "two tracks" of benefits payments are periodically adjusted based on changes in the local CPI or the US CPI, as applicable. Approximately one-third of beneficiaries have elected to receive benefits in currencies other than the US dollar. The Fund has extensive foreign currency and exchange transactions that have substantial implications for the investment of the assets of the Fund and for its income.

8. The Fund's assets, comprising the principal of the Fund, currently have a market value of some \$54.5 billion. The UNJSPF manages the majority of its investments internally. The Fund's investment portfolio is globally diversified. Although most of the Fund's investment portfolio's exposure is in major developed markets, the Fund is committed to finding sound investment opportunities in emerging markets as well. As of 31 December 2015, the distribution of the assets

by type of investment was as follows: 62.19 per cent in global equities, 24.15 per cent in global fixed income, 6.57 per cent in real assets, 3.48 per cent in alternative investments, and 3.61 per cent in cash and short-term holdings. The assets of the Fund were invested in 100 countries, including both developed and developing economies and in 24 currencies.

9. The Fund conducts asset-liability modelling studies (ALM studies) every four years. The purpose of the ALM studies is to examine the funded status of the Fund, examine return targets and propose a strategic asset allocation consistent with the Fund's established risk appetite and risk tolerance.

#### **D. Governance Structure of the Fund**

10. In accordance with the Regulations adopted by the General Assembly, the Fund is administered by the United Nations Joint Staff Pension Board and supported by a Secretary-CEO and a secretariat. The investment of the assets of the Fund is 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 Pension Board on the investments policy.

11. The Secretary-General of the United Nations has the ultimate fiduciary responsibility for the investment of the assets of the Fund. The Secretary-General has appointed a Representative for the Investment of the Assets of the Fund ("RSG") to carry out such responsibilities, and the RSG is supported by an Investment Management Division ("IMD") in evaluating investment advice received and in making the final decision on the investment of the assets of the Fund.

12. The Investments Committee, whose members are appointed by the Secretary-General to provide voluntary advice on the Fund's investments, meets formally four times a year, together with the RSG and staff of the IMD. The Investments Committee advises the Secretary-General on:

- (a) investment policy,
- (b) risk control,
- (c) diversification of the Fund's investment portfolio in terms of investment vehicles and markets, and
- (d) best practices for investment management and risk management

13. The ALM Committee assists the Board of the UNJSPF in carrying out its responsibility for the overall management of the Fund and for providing information to the Board about the long-term financial sustainability of the Fund. The ALM Committee works with the support of the Fund's management, including the RSG and the Secretary-CEO, representatives of the Investments Committee, with representatives of the Fund's Committee of Actuaries, and with the Fund's Consulting Actuary in order to monitor the solvency of the Fund and to provide advice and recommendations to the Board with regard to risk management, funding policy, asset-liability management and investment policy.

#### **E. Privileges and Immunities**

14. In accordance with Articles 104 and 105 of the Charter of the United Nations, the United Nations, including its subsidiary organs such as the Fund, have full legal status and capacity and

also have such privileges and immunities as are necessary for the fulfillment of their purposes. Such privileges and immunities were elaborated in the Convention on the Privileges and Immunities of the United Nations (“General Convention”), which was adopted by the General Assembly in 1946 and has been acceded subsequently to by the Member States of the United Nations. Pursuant to Section 2 of the General Convention, the UN, including the Fund, and its property and assets wherever located or by whomsoever held, enjoy immunity from every form of legal process, and from seizure, confiscation, expropriation or other forms of judicial, legislative or administrative interference. Section 7 of the General Convention exempts the UN, including the Fund, and its assets, income, and property from all direct taxes.

## **II. ROLES AND RESPONSIBILITIES OF THE INDEPENDENT THIRD PARTY**

15. The Service Provider will conduct an independent review of UNJSPF main practices, investment management and risk management independently and in relation to best practices and other public pension funds or financial institutions that are comparable to the Fund in size, scope and investment objectives.

16. The selected Service Provider will submit the results of the independent review to the Pension Board and to the Secretary-General and for consideration at its sixty-fourth session in July 2017.

17. The scope of the consultant’s review will focus on the following areas:

a. Investment Management: Assess the processes for the investments of the Fund’s assets and if such processes are aligned with the objectives and nature of the Fund, the Fund’s long-term strategic objectives, the Fund’s established investment policy and risk management objectives, as well as with advice of the Investments Committee and the Investment advisors. The assessment should also evaluate how strategic asset allocation and tactical asset allocation strategies are defined and implemented.

b. Risk Management: Assess and provide recommendations for the risk management function, including an assessment of how the Fund incorporates quantitative and qualitative risk indicators to measure, monitor and report market risk, credit risk, liquidity risks and operational risks. The evaluation will also assess the existence and need to implement metrics to measure, evaluate and monitor risk at different levels (total fund, strategic asset allocation and active management); as well as risk allocation and risk attribution.

c. Investment limits and compliance: Assess and provide recommendations regarding the existence, application and monitoring of compliance limits and internal control mechanisms to ensure compliance with limits. The review will also assess the investment workflow and operational risk issues.

d. Performance Measurement: Assess and provide recommendations on the performance measurement of the Fund’s investment management activities, and evaluate the existence and use of the performance attribution framework and its reporting mechanism.

e. Investment Reporting: Assess and provide recommendations on the Fund's investment reporting framework, its sources of information, periodicity, target audience, etc. to further provide transparent reporting and address information needs of various internal and external stakeholders.

### **III. GOVERNANCE FOR THE REVIEW**

18. To ensure independence, proper oversight and control, the ALM Committee and representatives of the Secretary-General have finalized the Terms of Reference for the independent review. A Steering Committee composed by six members, including four members of the ALM Committee, one for each group (participants, executive heads, governing bodies and FAFICS) and two members designated by the Secretary-General will supervise the completion of the review.

19. The United Nations will conduct a procurement exercise, in accordance with United Nations regulations, rules and policies, to identify suitable service providers, with the requisite background in the fields pertinent to the study, in order to carry out the independent study. The United Nations will conduct the exercise expeditiously so the timetable in paragraph 23 is fully met. The Steering Group for the study (i.e., the members of the ALM Committee and the representatives of the Secretary-General) will jointly identify and approve the selection of the Service Provider for the study.

20. The selected Service Provider will periodically report to the Steering Committee, which in turn will keep the ALM Committee and the Secretary-General informed of the progress of the review, any issues encountered, main conclusions and recommendations.

21. On-going monitoring of the review will be done by a Project Team, composed by the selected independent third party, two representatives of the ALM Committee, and a representative nominated by the Secretary-General. The IMD and the Fund's secretariat will support the Project Team and the Steering Committee as necessary and appropriate. The Project Team will report to the Steering Committee.

### **IV. DELIVERABLES**

22. Following the review, the Service Provider will produce a final report, to present its analysis along with any recommendations. The final report will be the basis for defining action plans for implementing any recommendations arising from the review.

23. It is expected that the following meetings will be held:

- Kick-off meeting (January 2017)
- Interim meeting to examine interim report in March 2017
- Final meeting to examine the draft final review in May 2017

- Submission of a final report by 30 June 2017 for presenting to the Pension Board and the Secretary-General as responsible for the investments.
- Presentation of the results of the review to Pension Board at its 64rd session in July 2017.



**Independent Review of UNJSPF Investment Operations  
Membership of the ALM Committee Steering Committee and of its Project team**

***Membership of the Steering Committee***

Mr. P. Sayour, Mr. W. Sach, Mr. J. Pozenel and Ms. V. Gonzalez-Posse, representing the Assets and Liabilities and Monitoring Committee (ALM Committee), and  
Ms. B. Bartsiotas and Mr. C. Saunders, representing the Secretary-General.

***Project Team for the Study***

Mr. W. Sach and Mr. J. Pozenel, representing ALM Committee;  
Mr. M. Zwecher (Manager), Mr. S. Gould, Mr. J. Burdis and Mr. A. Ojeomogha, representing  
Deloitte and Touche; and  
Mr. Y. Sumitro, representing the Secretary-General.