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Food and Agriculture
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Продовольственная и
сельскохозяйственная организация
Объединенных Наций

Organización de las
Naciones Unidas para la
Alimentación y la Agricultura

منظمة
الغذية والزراعة
للأمم المتحدة

FINANCE COMMITTEE

Hundred and Sixty-first Session

Rome, 16 - 20 May 2016

Report on Investments 2015

Queries on the substantive content of this document may be addressed to:

Mr Aiman Hija
Director and Treasurer, Finance Division
Tel: +3906 5705 4676

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Other documents can be consulted at www.fao.org*



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EXECUTIVE SUMMARY

- Long-Term Investments: This USD 416,8 million portfolio represents the accumulated assets set aside over a period of decades to fund the Organization's share of staff-related liabilities, which amounted to USD 1,125 million at 31 December 2015. Compared to the USD 1,391 million as per year-end 2014 this represents a reduction of the liabilities of 19.1 %. The liabilities are comprised of: Staff Compensation Plan, Separation Payment Scheme, After Service Medical Coverage (ASMC) and the Termination of Service Payment Scheme. Invested assets are 50% in Equities and 50% in Fixed Income securities. In 2015 the long term portfolio yielded -6.61 % . The long term portfolio benchmark return was -7.37%, and the excess return for the long term portfolio was 0.76 %. Expressed in their base currency, all portfolios showed slightly negative results in 2015. The main driver of the negative overall performance of -6.61 % is explained by the continuing strong decline of the EUR versus the USD of over 10% in 2015. The impact of the EUR/USD rate on the investments performance is largely compensated by the opposite effect on the actual value of the staff related liabilities. The impact of the movement in the EUR/USD rate was to reduce the valuation of the staff-related liabilities by USD 95 million or 6.85 %. This aspect is further detailed in document FC 161/4- 2015 Actuarial Valuation of Staff-related liabilities.
- Short-Term Term Investments: This USD 1,031 million portfolio represents mainly unspent Trust Fund balances held pending disbursements on project implementation. Funds are diversified as to type and holdings among five specialized asset managers. FAO's prudent , low risk investment style and the continuing near zero interest rate environment in 2015 kept returns very low, with a total return of 0.21% for the year. However, this exceeded the benchmark return by 19 basis points.
- Investment Governance: The strategic asset allocations for Short Term and Long Term investments are designed in close collaboration with the Organization's technical advisor, the World Bank. Asset and Liability (ALM) studies are conducted by specialized firms, reviewed by both the Advisory Committee on Investments (a committee composed of high level experts from organizations such as the IMF, the World Bank, the BIS and the Asian Development Bank), and the internal Investment Committee with the final approval of the Director General.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to take note of this information document.

Draft Advice

- **The Finance Committee took note of the Report on Investments 2015.**

1. This document is submitted to the Finance Committee for information, in accordance with Financial Regulation IX, which provides, in part, as follows: “The Director-General may invest monies not needed for immediate requirements seeking, wherever practicable, the advice of an Advisory Committee on Investments. At least once a year the Director-General shall include in the financial statements submitted to the Finance Committee a statement of the investments currently held.”

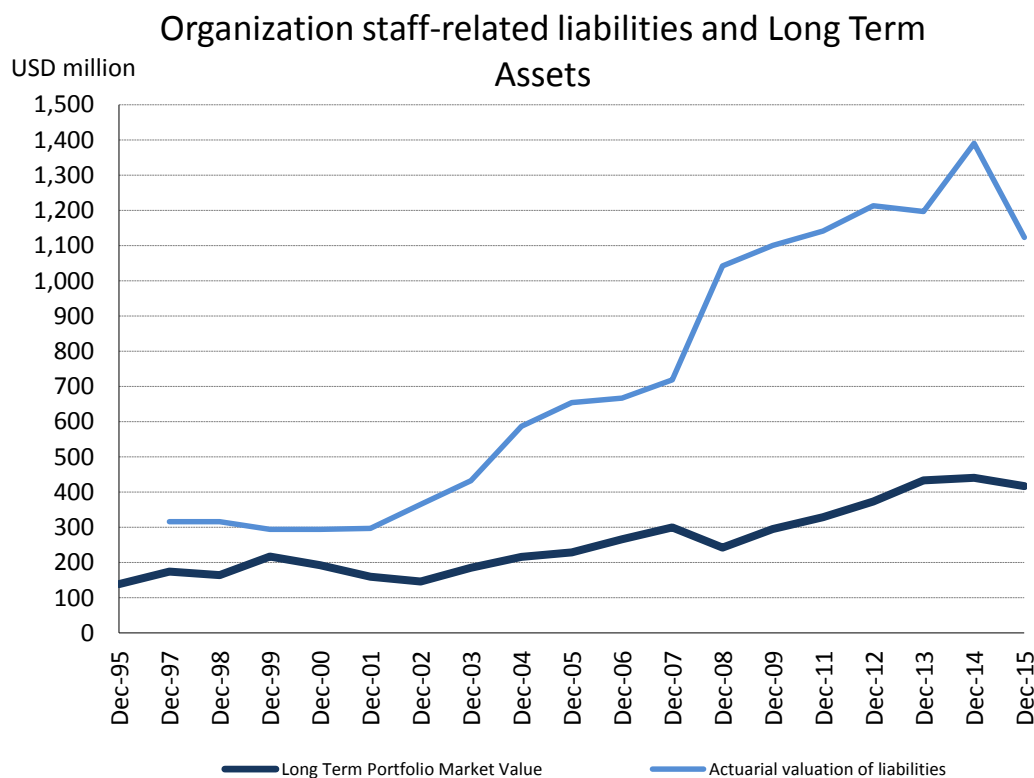
Long-Term Investments

2. The long-term investment portfolio represents an accumulation in the value of securities and re-invested income over more than 30 years.

3. The principal objective of the portfolio is to fund the Organization’s share of staff-related liabilities:

- 1) Staff Compensation Plan – Provides benefits in the event of injury, illnesses or death attributable to the performance of official duties;
- 2) Separation Payment Scheme – In conformity with the Flemming principle adopted in the UN system regarding local employment conditions, this scheme for General Service staff is similar to the separation scheme provided under Italian labour legislation;
- 3) After Service Medical Coverage (ASMC) – A medical insurance plan for eligible retired staff and their families where the cost of insurance is shared between the retiree and the Organization; and
- 4) Termination of Service Payment Scheme – Consists of benefits payable to staff upon separation from service; Repatriation Grant, Repatriation Travel and Removal, Commutation of Accrued Leave, Termination Indemnity.

4. The chart below shows the evolution of the market value of the long-term investment portfolio since 1995 compared to the actuarial valuation of the staff-related liabilities (since 1997).



5. An actuarial valuation of these liabilities has been performed each biennium since 1996-97. The last valuation as of 31 December 2015, carried out by a specialized firm, placed the Organization's share of total staff-related liabilities at USD 1,125 million, below the figure for 2014 of USD 1,391 million. Staff-related liabilities are presented to the Finance Committee in document FC 161/4 - 2015 Actuarial Valuation of Staff Related Liabilities.

6. The latest actuarial estimation of all staff-related liabilities included USD 989.6 million representing the liability of After Service Medical Coverage (ASMC). The Conference authorized biennial funding towards the past-service ASMC liability of USD 14.1 million in 2014-2015. The same amounts were authorized in 2004-2005, 2006-2007, 2008-2009, 2010-2011 and 2012-2013.

7. The ASMC Funding for 2014-15 was assessed in both EUR (67%) and USD (33%) in line with the currency mix of the liability. As agreed by the Finance Committee, assessed funds were transferred into the investment portfolio based on the percentage of total Member contributions actually received. Following this methodology, USD 2.076 million and EUR 3.611 million were transferred to the long term portfolio in 2015.

8. The asset allocation of the portfolio provides for a 50/50 ratio between equities and bonds. The actual allocation at market value at 31 December 2015 was as follows:

2015 Long Term Portfolio Asset Allocation		
Manager	% Portfolio	Assets USD
Equity		
PanAgora AM	52.50%	218,826,318.34
Fixed Income		
LGT AM	18.91%	78,808,082.49
FFTW AM	28.59%	119,156,065.21
TOTAL LT PORTFOLIO		416,790,466.04

values at 31/12/15

GIPS compliant values

9. Rebalancing of the funds occurs at month end if the ratio is out of balance by more than 5%. When possible, active rebalancing by FAO Treasury using ASMC contributions is carried out.

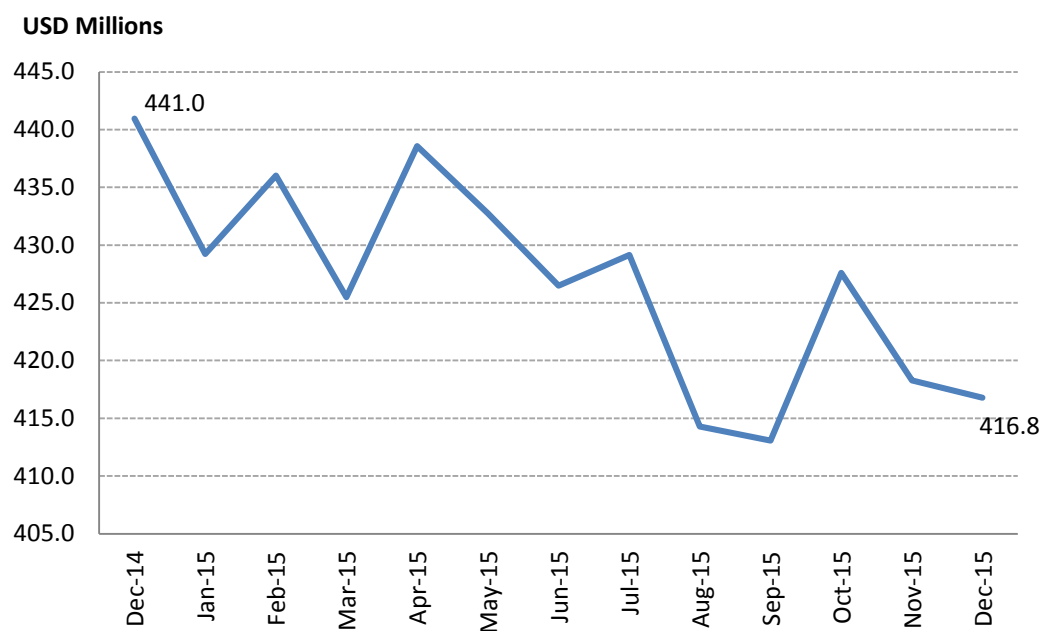
10. The measurement of performance is by comparison to the following benchmarks:

- For the equity portfolio: 80% The Morgan Stanley Capital International Inc All Country Index + 20% The Morgan Stanley Capital International Inc Emerging Markets Index;
- For the fixed income portfolio:
 - For the mandate awarded to LGT, A blend of 80% Barclays World Government Inflation Linked Bonds Index + 20 % and Merrill Lynch EMU Direct Government AAA Bonds Index;
 - For the mandate awarded to FFTW, A blend of 55% Barclays World Government Inflation Linked Bonds Index + 15 % and Merrill Lynch EMU Direct Government AAA Bonds Index + 15% Barclays EU Credit Corp + 15% Barclays US Credit Corp.

11. These benchmarks fairly represent the geographical and sector allocation of the portfolio and have been reviewed by the Investment Committee and by the Organization's investment technical advisor, the World Bank.

12. The Chart below illustrates the evolution of the long-term investment portfolio in 2015.

2015 - Long Term Portfolio Market Values



13. Movements in the long-term portfolio during the year are summarized below. Non-USD values are expressed in USD using the exchange rate valid at 31 December 2015.

CASH FLOW 2015	Amount USD
Market Value 31/12/2014*	440,177,447.75
Net variance of unrealized gain/loss	- 23,852,622.96
Realized gain/ loss	- 14,028,520.58
Income dividends and interest	9,178,900.93
Management, custodial and advisory fees	- 1,363,804.84
ASMC Funding	6,153,040.41
Accrued income change	- 305,307.02
Market Value at 31/12/2015*	415,959,133.69

*Ipsas compliant values, calculated on the asset BID prices.

a) It should be noted that equity investments are reported in USD, while fixed income investments are reported in EUR. Therefore, in order to obtain an overall return, fixed income returns were converted to USD. Consequently, the combined return reflects both the returns of the two funds and the currency effect of USD/EUR movements over the year. This combined return in 2015 for the long term funds expressed in USD was -6.61% versus -7.37% for the benchmark.

2015 Long Term Portfolio Return

Equity USD		
Manager	PanAgora AM	-2.16%
Benchmark	<i>80% MSCI World Index + 20% MSCI Emerging Markets Index</i>	<i>-3.82%</i>
Fixed Income EUR		
Manager	LGT AM	-1.89%
Benchmark	<i>80% Barclays World Gov't Inflation Link'd +20% Merrill Lynch EMU Direct Gov't AAA Bond Index</i>	<i>-0.93%</i>
Manager	FTW AM	-0.39%
Benchmark	<i>55% Barclays World Gov't Inflation Link'd + 15% Merrill Lynch EMU Direct Gov't AAA Bond Index + 15% Barclays EU Credit Corp + 15% Barclays US Credit Corp</i>	<i>-0.85%</i>
EUR/USD	YTD performance -10.22%	
	<i>Combined Fixed Income Portfolio Performance after conversion to USD</i>	<i>-11.11%</i>
TOTAL LT PORTFOLIO		-6.61%
Portfolio Return (weighted average of equity and fixed income portfolios)		-6.61%
Benchmark Return (weighted average of equity and fixed income portfolios)		-7.37%
Excess Return (portfolio return over benchmark)		0.76%

values at 31/12/15

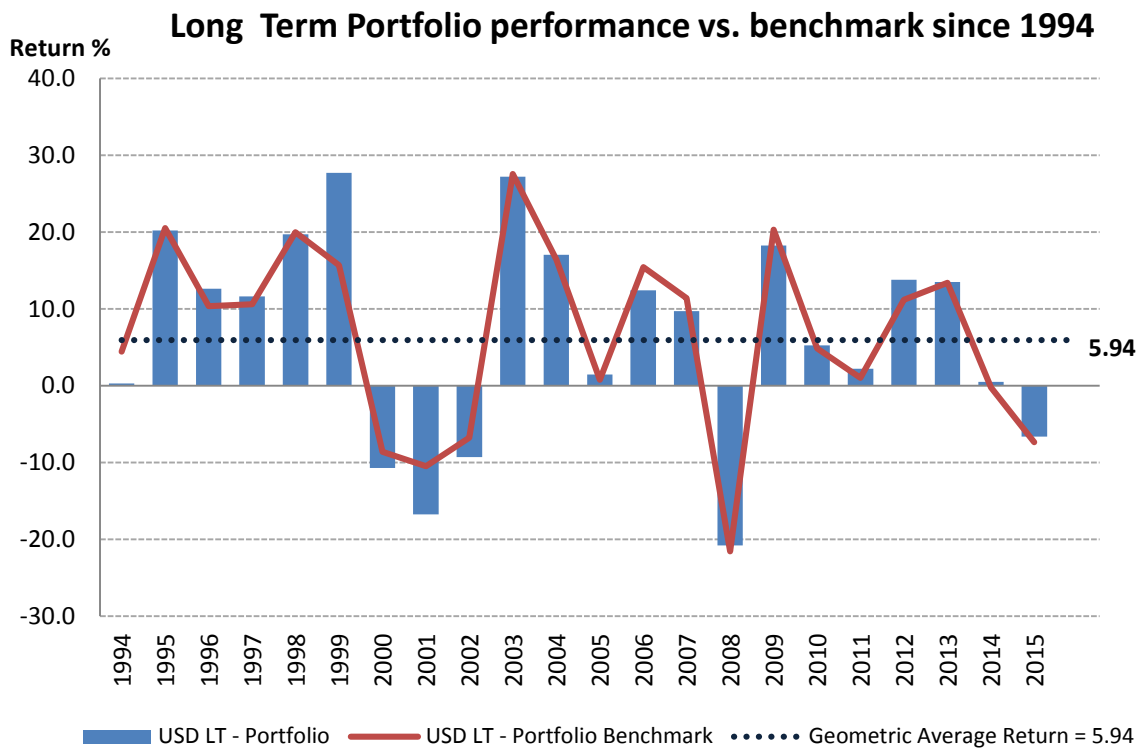
Notes:

Equity Returns based in USD

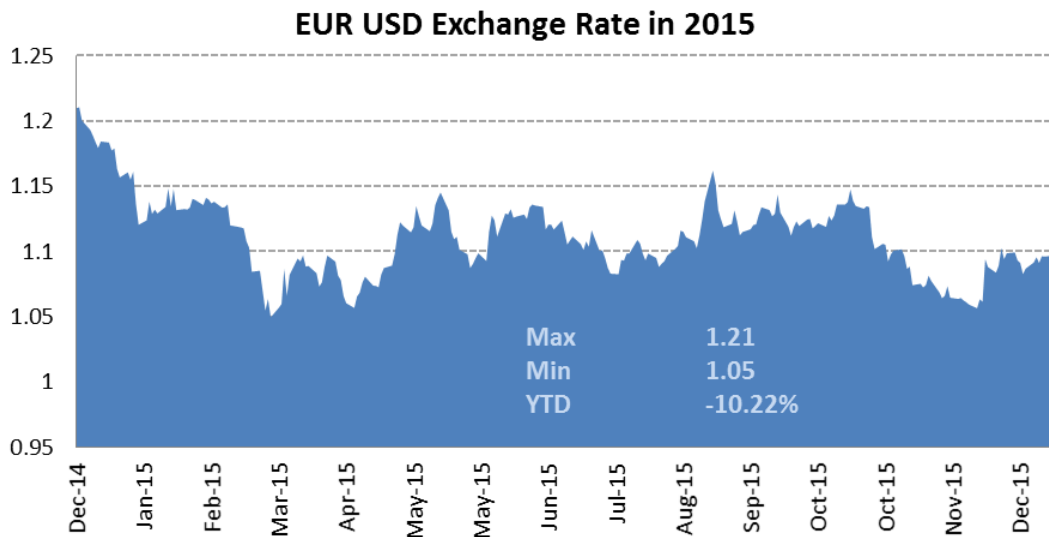
Fixed Income returns based in EUR

Combined returns based in USD

b) Yearly performance figures of the long-term portfolio from 1994-2015 are shown below. The performance of the long term portfolio is shown by the bar chart and compared to the performance of the combined benchmark for long term investments. The dotted line in the chart is the geometrical average performance of the long term portfolio since 1994, i.e. 5.94%.

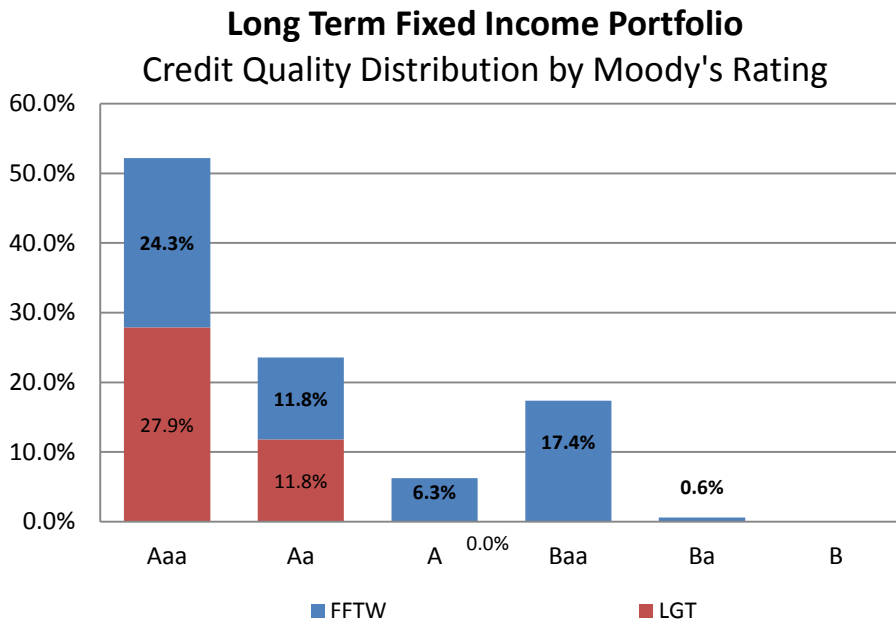


c) The chart below illustrates the movements in the USD/EUR rate over the course of 2015. Movements in the value of the EUR have a direct effect on USD measured returns. Year to date, the Euro lost more than 10% of its value to the US Dollar.



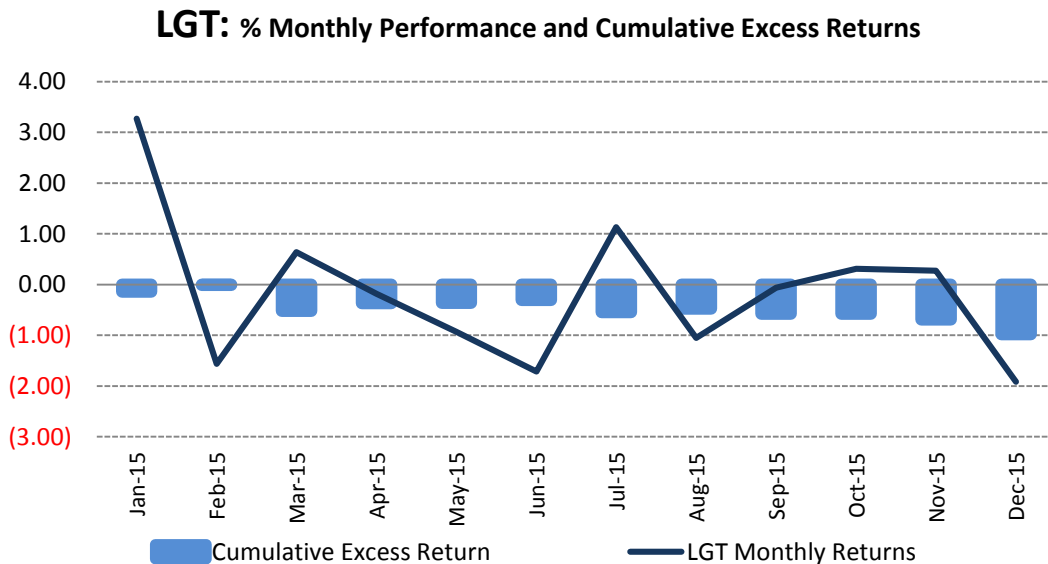
Source: Bloomberg

14. The chart below provides a breakdown of the assets in the long-term fixed income portfolio by credit quality. 76% of assets are in the Aaa-Aa space, confirming the low risk profile of investments.

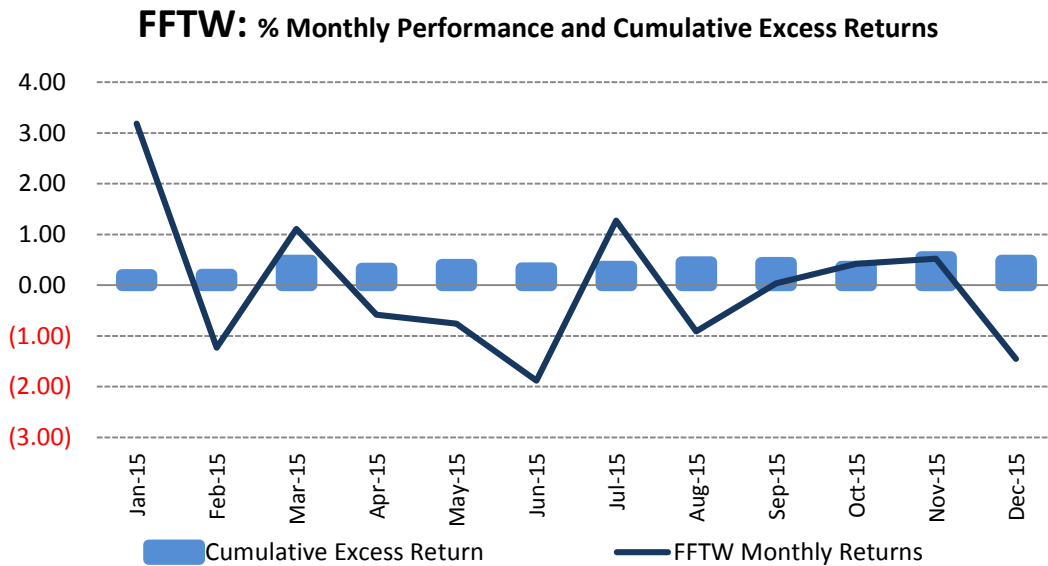


Long -Term Portfolio 2015 Performance and Excess returns

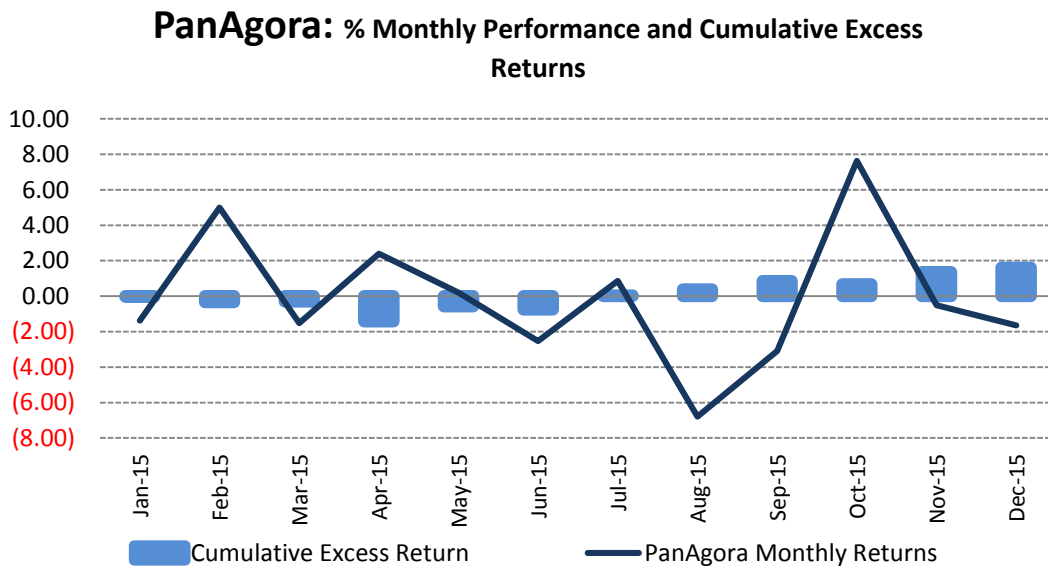
15. The review of Long Term Investments includes an analysis of performance and excess returns. Monthly returns and cumulative monthly excess returns are graphed over the past year, as shown below.



In 2015 the account managed by LGT experienced some volatility in both absolute and excess return. Over the year, LGT lagged the benchmark by 0.95%. The annual return was -1.89% vs. -0.93% for its benchmark. FFTW finished the year slightly above benchmark, excess return for 2015 was 0.47%. The annual return was -0.39% vs.-0.85% for its benchmark.



16. 2015 was a very volatile year for equity too, as can be seen in the graph below detailing the 2015 monthly performance and cumulative excess return generated by the account managed by PanAgora. As for the past years, PanAgora generated positive excess return, 1.66% in 2015.



Short-Term Investments

17. Short-term investments consist largely of Trust Fund deposits held pending disbursements on project implementation and any cash representing the reserves of Regular Programme and other assets. The investments are managed by asset managers specialised in short-term investments: Wellington Management, the Northern Trust Company, HSBC, the World Bank and Wells Capital Management or invested in deposits with the Bank for International Settlements.

The market value (in USD) in the short-term portfolios is illustrated below:

	At 31 December 2015	At 31 December 2014
Bank for International Settlements	341,241,788.83	403,178,934.00
World Bank	250,805,978.00	250,759,792.00
Wellington AM	260,819,028.00	240,444,161.00
Wells Capital Management	150,583,203.00	150,133,121.00
HSBC EUR Liquidity Fund	24,879,137.09 *	7,150,211.98
NT Government Select Fund	2,453,108.00	3,163,811.00
Total	1,030,782,242.92	1,054,830,030.98

* 22 739 531.3 EUR converted at 31/12/2015 UN rate

18. During 2015, the Organization continued to keep a very low risk exposure of its short-term assets in light of the ongoing volatility and insecurity of financial markets and the very low interest rates in USD.

19. Specifically:

- a) Wellington Management: the Organization continued to impose very restrictive guidelines allowing only investments in very low risk instruments or instruments fully guaranteed by the US Government such as United States (US) Treasury Bills, US government agencies' and US government backed securities.
- b) Northern Trust: Holdings in the Northern Trust Government Select Fund offer relative safety as they are substantially (and at least 80 %) securities issued or guaranteed as to principal and interest by the U.S government or by its agencies, instrumentalities or sponsored enterprises.
- c) HSBC EUR Liquidity Fund: The Organization has traditionally had limited cash balances in EUR due to delays in the receipt of contributions. Consequently, balances invested in EUR remained proportionally low throughout 2015.
- d) BIS: Continuation of high level deposits at the BIS in view of its outstanding credit quality arising from its structural integration with 50 central banks and monetary authorities.
- e) World Bank: This portfolio has restrictive guidelines and tight risk limits allowing only investments in government securities, government agencies, other official entities and multilateral organization securities and high ranked bank and other financial institution obligations.

f) Wells Capital Management: This portfolio has restrictive guidelines and tight risk limits allowing only investments in government securities, government agencies, other official entities and multilateral organization securities and high ranked bank and other financial institution obligations.

20. The end result of such risk mitigating measures implies that the majority of FAO's short-term investment portfolio is currently secured in very low risk instruments.

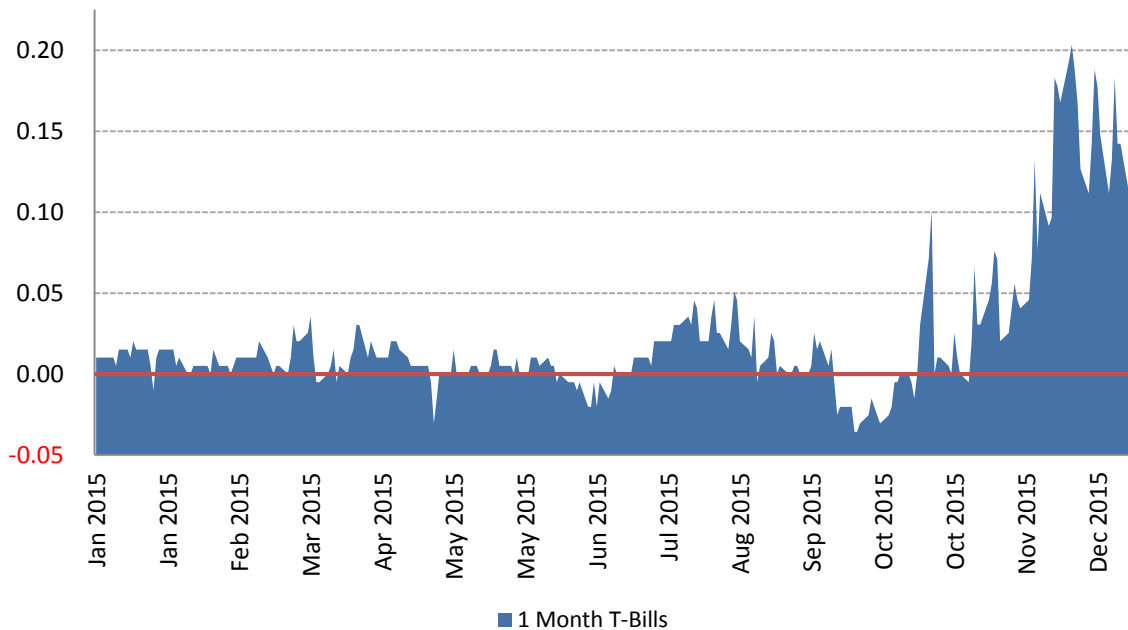
21. The performance of short-term portfolios during the course of 2015 was dominated by the extreme low interest environment for very low risk USD investments. The overall performance was 0.21 % for the year.

2015 Short Term Portfolio Return

Actively Managed		
Manager	Wells Capital Management	0.40%
<i>Benchmark</i>	<i>Bofa Merrill Lynch U.S. Treasury Notes & Bonds, 0-2 Yr Index</i>	<i>0.23%</i>
Manager	World Bank	0.20%
<i>Benchmark</i>	<i>Bofa Merrill Lynch U.S. Treasury Notes & Bonds, 0-1 Yr Index</i>	<i>0.16%</i>
Manager	Wellington Management	0.25%
<i>Benchmark</i>	<i>Merrill Lynch 3 Month T-Bills</i>	<i>0.05%</i>
Deposits and Liquidity Funds		
Manager	Northern Trust Liquidity Fund	0.01%
Institution	BIS	0.15%
<i>Benchmark</i>	<i>1 Month T-Bills</i>	<i>0.02%</i>
TOTAL ST PORTFOLIO		0.210%
Portfolio Return (weighted average of all short term asset returns)		0.210%
Benchmark Return (1 Month T-Bills)		<i>0.020%</i>
Excess Return (portfolio return over benchmark)		0.190%

The annual returns for 1 Month T-BILLS in 2015 are graphed below for further comparison.

Returns on the 1 Month T-Bills over 2015

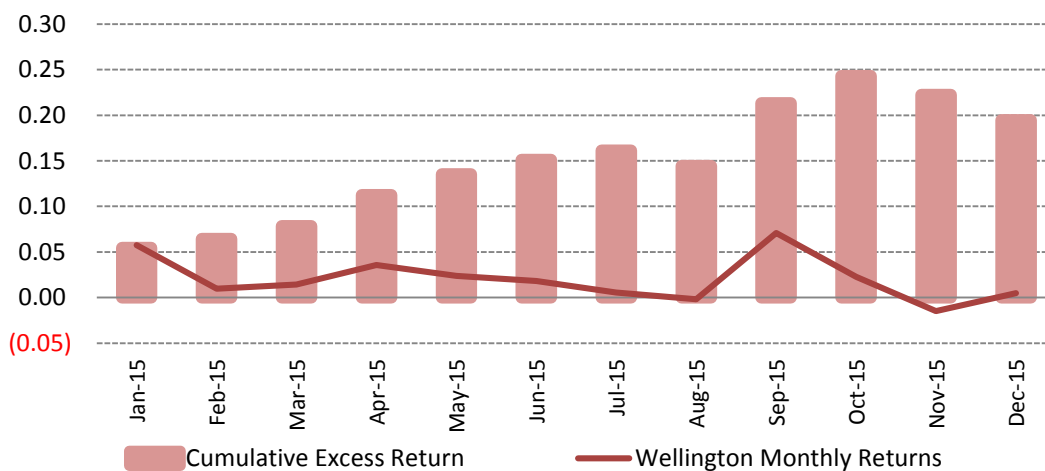


Short-Term Portfolio 2015 Excess Returns and Standard Deviation

22. The review of Short Term Investments includes an analysis of our three short duration managers.

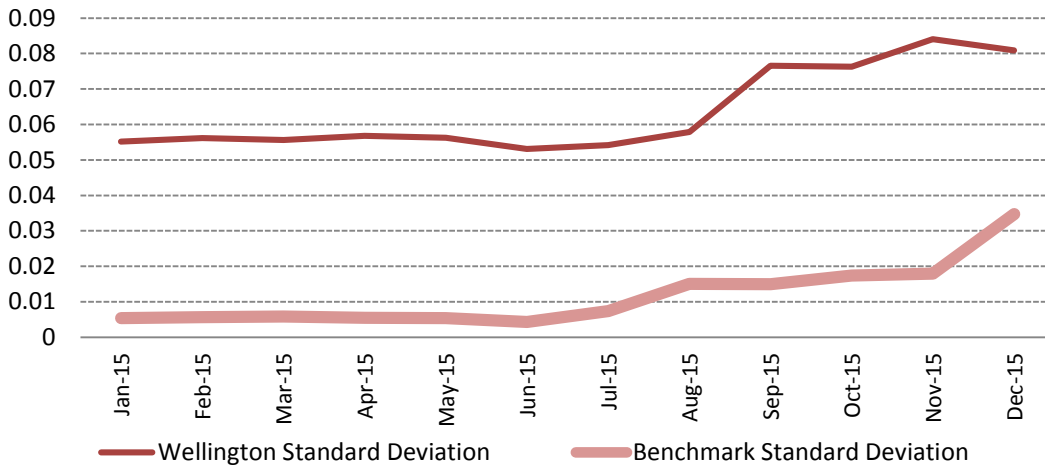
Monthly returns and cumulative monthly excess returns are graphed over the past year. Also graphed below is each portfolio's standard deviation vs. that of its benchmark.

Wellington Management: % Monthly Performance and Cumulative Excess Returns



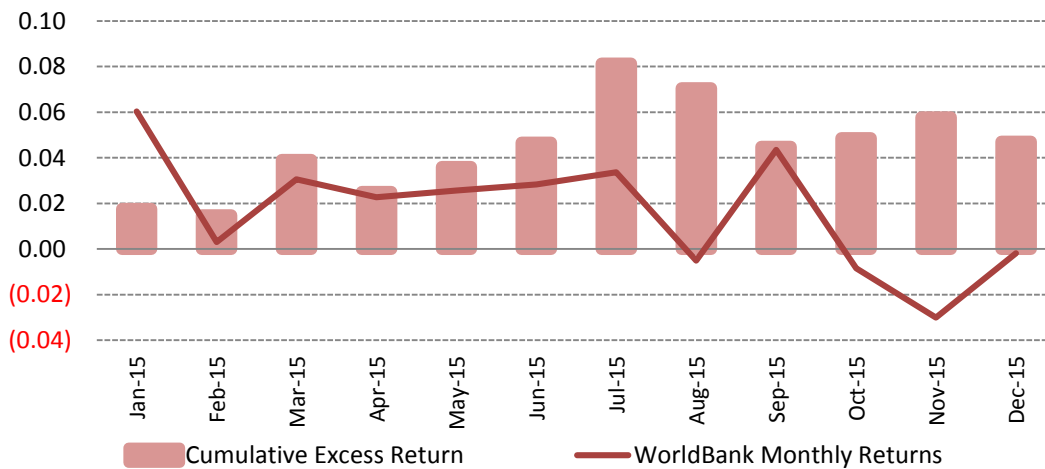
23. Over the past year, Wellington has provided constant excess returns, exceeding its benchmark most months, excess returns totalled 0.19%. As shown below, the standard deviation of this portfolio has decreased over the year averaging 0.062%, and is persistently above the standard deviation of its benchmark, Merrill Lynch 3-Month T-Bills.

Wellington Management: Portfolio vs. Benchmark 1yr Standard Deviation



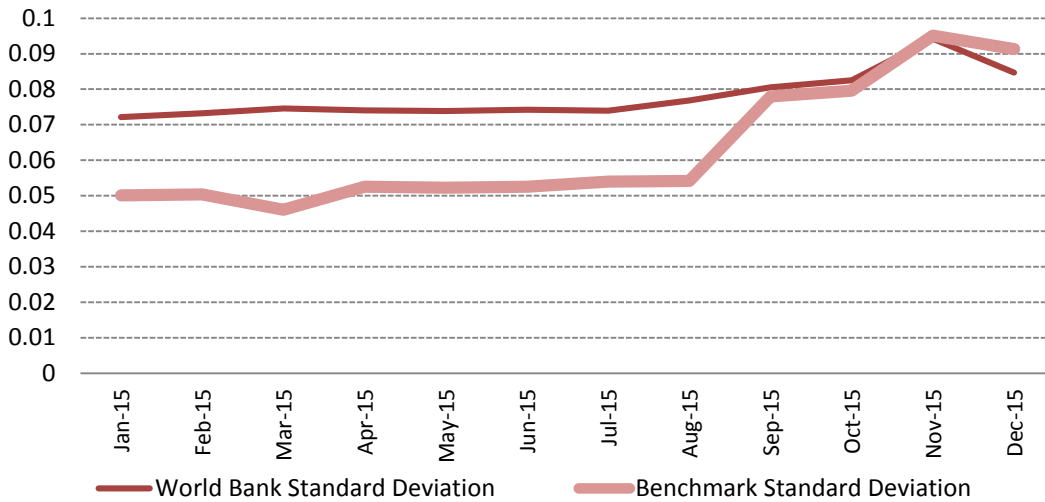
24. As shown below, over the past year, the World Bank portfolio's has also generated excess return over the benchmark, at year end the cumulative excess return was 0.05%.

World Bank: % Monthly Performance and Cumulative Excess Returns



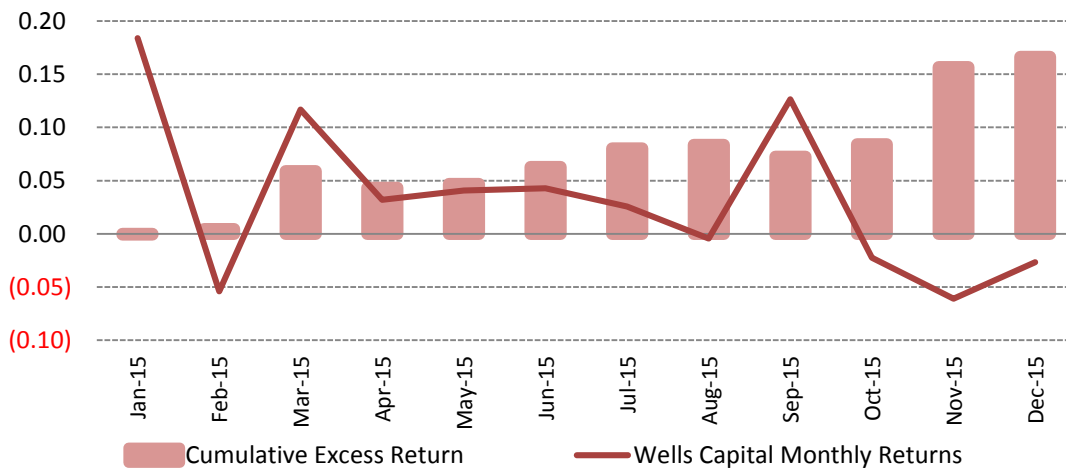
25. The 1 year standard deviation for this portfolio is very close to that of its benchmark, the average over the year was 0.07%, as shown in the graph below.

World Bank: Portfolio vs. Benchmark 1yr Standard Deviation



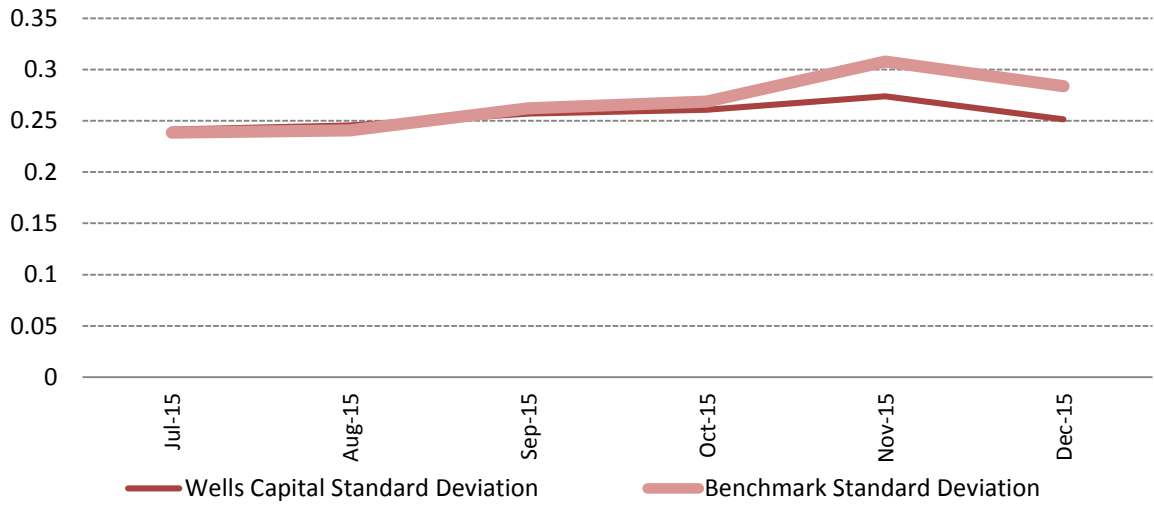
26. Over 2015, the Wells Capital portfolio also generated excess return over the benchmark , at year end the cumulative excess return was 0.17%.

Wells Capital Management: % Monthly Performance and Cumulative Excess Returns



27. The 1 year standard deviation for this portfolio is in line with that of its benchmark, the average over the year was 0.25%, as shown in the graph. Data starts from July 2015 as this account was funded in July 2014.

Wells Capital: Portfolio vs. Benchmark 1yr Standard Deviation



Investment Governance at FAO

28. A detailed strategic asset allocation review for Long Term investments is conducted by specialized firms within the context of an Asset and Liability study (ALM). Reviews are conducted approximately every five years. The most recent study was conducted at the end of 2013.
29. Short Term asset allocation strategies are designed in close collaboration with FAO's technical investment advisor, the World Bank.
30. The results of asset allocation studies are reviewed by FAO's internal Investment Committee. Final recommendations are forwarded to the Director General for approval. The Investment Committee is made up of the heads of finance, budget, legal, audit, the treasurers of IFAD and WFP and is chaired by the ADG of Corporate Services (CS).
31. The Organization also seeks investment advice from the Advisory Committee on Investments in accordance with Financial Regulation 9.1. The ACI is an external committee composed of high level experts from organizations such as World Bank, IMF, BIS and the Asian Development Bank. The World Bank also serves as the Organization's technical investment advisor.
32. The management of assets in the equity and fixed-income markets is carried out by specialized external asset managers in accordance with FAO's detailed written guidelines. These managers are chosen through open, international calls for tenders with a final selection process carried out with the assistance of the World Bank.
33. Day-to-day control over the external managers, including daily compliance monitoring, is done by the Organization's Treasury unit in the Finance Division. The Treasury unit also provides regular reporting to the Director of Finance, the internal Investment Committee and Senior Management. On-site compliance visits to the external asset managers and the securities custodian are carried out by the Treasury unit regularly.
34. Finally, a detailed report on FAO's investments is provided annually to the Finance Committee. This report is available on the internet website of the Finance Committee.

Investment Expenses

35. The table below outlines the investment expenses incurred in the year 2015.
36. Investment related expenditure has slightly increased from 2.7 million USD to 2.9 million USD, mainly owing to the higher performance fee paid to our equity investment manager, PanAgora.
37. Assets have decreased from 1,495 million USD in 2014 to 1,446 million USD bringing the overall expense ratio up from 0.18% in 2014 to 0.21% in 2015.

Investment Service Provided	2015 Expenditures in USD
Management, custodial and advisory fees	2,252,706.73
Treasury staffing (three professional posts)	667,292.23
Advisory Committee on Investments Meetings, Investor compliance and Training Costs	25,673.24
Bloomberg Terminal	41,955.00
Total Expenses	2,987,627.20
Total Assets at 31/12/2015	1,446,741,376.61
Total Expense Ratio	0.21%
