



منظمة الأغذية  
والزراعة  
للأمم المتحدة

联合国  
粮食及  
农业组织

Food  
and  
Agriculture  
Organization  
of  
the  
United  
Nations

Organisation  
des  
Nations  
Unies  
pour  
l'alimentation  
et  
l'agriculture

Продовольственная и  
сельскохозяйственная  
организация  
Объединенных  
Наций

Organización  
de las  
Naciones  
Unidas  
para la  
Agricultura  
y la  
Alimentación

## FINANCE COMMITTEE

**Hundred and Thirty-fifth Session**

**Rome, 25 – 29 October 2010**

**Recommendations and Decisions of the International Civil Service  
Commission and UN Joint Staff Pension Board to the General Assembly  
(including Changes in Salary Scales and Allowances)**

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**EXECUTIVE SUMMARY**

- The purpose of this paper is to inform the Committee of recent recommendations and decisions adopted by the International Civil Service Commission (ICSC) and the United Nations Joint Staff Pension Board (UNJSPB) and to advise of changes to the conditions of service of staff, both in the professional and higher categories as well as in the general service staff categories. These changes are currently anticipated to result in an increase of approximately USD 0.2 million for the Regular Programme in 2011.

**GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE**

- The Committee is invited to take note of the contents of this document.

**Draft Advice**

- **The Finance Committee noted the recent recommendations and decisions adopted by the International Civil Service Commission (ICSC) and the United Nations Joint Staff Pension Board (UNJSPB), as summarised in the paper.**

## **PURPOSE**

1. The purpose of this paper is to inform the Committee of recent recommendations and decisions adopted by the International Civil Service Commission (ICSC) and the United Nations Joint Staff Pension Board (UNJSB) and to advise of changes to the conditions of service of staff, both in the professional and higher as well as in the general services staff categories.
2. The paper also discusses, under each relevant section, the possible financial implications for FAO in the current biennium of implementing the changes. Since a number of the recommendations have not yet been endorsed by the General Assembly and have not been costed by the ICSC, the only tangible additional cost to FAO in the current biennium at this stage is projected to be an increase of approximately USD 0.2 million for the Regular Programme in 2011 associated with the anticipated increase to the allowances for children and secondary dependents for the Professional and Higher categories.

## **INTERNATIONAL CIVIL SERVICE COMMISSION (ICSC)**

### **CONDITIONS OF SERVICE APPLICABLE TO BOTH CATEGORIES OF STAFF**

#### *Inter-agency mobility: a comprehensive assessment of issues and practices*

3. By its resolution 61/244, the General Assembly requested the ICSC, within its mandate, to continue to keep under review the question of mobility in the United Nations common system, including its implications for career development, and to make recommendations to the General Assembly, as appropriate, in the context of its annual reports.
4. The report presented by the ICSC secretariat at the Commission's seventy-first session provided an analysis of benefits and problems including administrative constraints as well as an overall assessment of issues and practices with regard to inter-agency mobility in the United Nations common system. The report concluded that, despite the fact that there was much support for the idea of inter-agency mobility within the United Nations system and there had been numerous encouragements and policy statements by the General Assembly and others to increase the degree of mobility, there was basically very little change in inter-agency mobility between the common system organizations.
5. The report presented three options towards an effective inter-agency policy in the organizations of the UN common system. Those options were: i) working to make the One UN concept a reality by allowing system-wide workforce planning to manage talent across the organizations and to identify gaps in talent; ii) continuing with the current approach of stressing inter-agency mobility, but recognizing the current extent of organizational autonomy with respect to human resources management; and iii) working towards greater harmonization of human resources management policies in order to remove as many barriers as possible to mobility.
6. The Commission decided to:
  - a) Review its Human Resources Management Framework (developed in 2000) with respect to *inter alia* inter-agency mobility, recruitment systems and other human resources elements under its purview;
  - b) Urge organizations to:
    - i) Remove existing administrative barriers to inter-agency mobility;
    - ii) Develop strategies to change organizational culture with regard to mobility;
    - iii) Integrate inter-agency mobility into their human resource policies;
    - iv) Implement a more structured approach to inter-agency mobility with an emphasis on the staff development aspect;
    - v) Promote consistency in application of secondments; and

- vi) Develop appropriate solutions for spouse employment such as negotiating agreements with host countries through the Resident Coordinators and removing restrictions on spouses being employed in the same organization.
- c) Request organizations to adhere to the criteria stipulated in the ICSC Framework for Contractual Arrangements in the United Nations common system in granting continuing contracts; and
- d) Request its secretariat to conduct an analysis by compiling all barriers to harmonization of human resources management policies in the common system and also identify areas where actions had been taken and/or action would be necessary, and report on its finding at the seventy-third session.

7. No budgetary implications for FAO are anticipated as a result of these recommendations in 2010-11.

*Education grant: review of the level at the 71<sup>st</sup> session*

8. The CEB/HR Network made proposals for a review of the levels of the education grant on the basis of an analysis of expenditure data for the academic year 2008/09. The analysis had been conducted in accordance with the methodology approved by the Commission in 1992 and further modified in 1997 and during the seventieth session in the spring of 2010.

9. The Commission decided to recommend to the General Assembly that as from the school year in progress on 1 January 2011:

- a) The maximum admissible expenses and the maximum education grant be adjusted for Austria, Denmark, France, Germany, Italy, the Netherlands, Spain, Switzerland, the United Kingdom of Great Britain and Northern Ireland, the United States of America and the United States dollar area outside the United States. However, at the time of writing the present paper, the proposed amounts were not available;
- b) For Belgium, Ireland, Japan and Sweden the maximum admissible expenses and maximum education grant remain at the current levels;
- c) For Austria, Belgium, Denmark, France, Germany, Italy, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom, the United States and the United States dollar area outside the United States, the normal flat rates for boarding taken into account within the maximum admissible educational expenses and the additional amount for reimbursement of boarding costs over and above the maximum grant payable to staff members at designated duty stations be revised. However, at the time of writing the present paper, the revised amounts were not available;
- d) For Ireland and Japan the normal flat rates and the additional flat rates for boarding be maintained at the current levels;
- e) The special measures for China, Hungary, Indonesia, Romania, the Russian Federation as well as the eight specific schools in France be maintained; and
- f) The special measures for Bulgaria be discontinued.

10. No financial implications for FAO are anticipated as a result of these recommendations in 2010 and they cannot, at this stage, be quantified for 2011 since methodological issues associated with undertaking the survey are yet to be resolved (refer below) and adjustment rates are not yet available from the Commission.

*Education grant methodology: consideration at the seventy-first session*

11. The CEB/HR Network identified a number of issues pertaining to the education grant methodology which needed to be addressed. In particular, the Network used the new list of representative schools and attempted to track fee movement at all levels of education as provided

in the newly modified methodology. In its presentation to the Commission, the Network highlighted some problems concerning university fees.

12. The CEB/HR Network also proposed that the following methodological issues be reviewed by the Commission:

- a) One-time payment of capital assessment fees be reimbursed at 75 per cent, once per child per staff member assignment; and
- b) The amount of special education grant for disabled children should be modified to take into account the overall increase in fees associated with educating children with disabilities.

13. The Commission requested its secretariat to expand its upcoming review of education grant methodology issues and, in particular, include the following additional items:

- a) The underlying philosophy of the education grant;
- b) Review the list of country/currency zones: large countries like Canada may be managed separately and smaller countries/zones like Sweden and Ireland may be regrouped;
- c) The list of admissible expenses; to be streamlined and harmonized using work done in the working group that last reviewed the grant;
- d) Special education grant:
  - i) In addition to the list in (c) above, review the list of admissible expenses as it relates to disabled children also referring to the conclusions reached by the last working group on the matter;
  - ii) Review the education grant ceilings for special education grant taking into consideration the cost involved in educating disabled children and based on the options presented by the CEB/HR Network;
- e) The reimbursement policy relating to one-time capital assessment fees taking into consideration the proposal made by the CEB/HR Network during the current review;
- f) In determining the level of the grant, revise the methodology and state clearly procedures used in proposing adjustments to the level namely, triggers, the role of cost and fees, including representative schools used in determining the maximum admissible expenses;
- g) In the United States dollar area outside the United States schools should be tracked on their own basis (adjustments to the ceiling should not be made simply to ensure that less than 5 per cent of claims are above the ceiling);
- h) Review the list of representative schools based on the experience during this review; and
- i) Review the criteria for special measures taking into consideration factors such as distance of schools from the duty station and the availability of adequate schools within commuting distance of any given duty station.

14. The Commission reiterated its request to the secretariat that it update the methodology to reflect all changes in the current education grant methodology and present it at the seventy-fifth session upon completion of its review.

*Review of the pensionable remuneration: Roadmap and issues to be considered*

15. In its resolution 51/217 of 18 December 1996, the General Assembly requested the Commission, in full cooperation with the United Nations Joint Staff Pension Board (UNJSPB), to undertake in 2002 further comprehensive reviews of the methodologies for the determination of the pensionable remuneration of staff in the Professional and higher categories and the General Service and related categories, and for the adjustment of the pensionable remuneration between comprehensive reviews and to submit its recommendations thereon to the General Assembly at its

fifty-seventh session. After deferrals in 2002, 2004 and 2005, due to the then ongoing pay and benefits review, this item was placed on the Commission's programme of work for 2010-2011.

16. The Commission reviewed background information relating to the review, the issues to be considered and the proposed working arrangements during the review. The initial list was discussed at the fifty-seventh session of the UNJSPB meeting and a few changes were introduced. The Board was in agreement with the suggested working arrangements which, inter alia, foresee that documents be first discussed during the Commission's seventy-second session in spring 2011 where a representative of the Board would be present; additional work would be conducted and a final report would be discussed at the UNJSPB fifty-eighth session and later presented to the Commission at its seventy-third session in summer 2011 for final approval. This would be followed by a joint report of the Commission and the UNJSPB which would be submitted to the General Assembly.

17. The Commission decided that the following items be reviewed:

- a) The common scale of staff assessment;
- b) Income replacement ratios;
- c) Cost comparisons of the United States/United Nations pension schemes;
- d) Double taxation;
- e) Non-pensionable component;
- f) Impact of the steep devaluation of local currency and/or high inflation; and
- g) Small pensions.

18. In addition, the Commission decided:

- a) To approve the work schedule as outlined in paragraph 12 above; and,
- b) That the secretariats of the UNJSPF and the ICSC would meet informally and as necessary in order to complete the review in accordance with the proposed working arrangements.

19. No financial implications are estimated for FAO in 2010-11 as a result of these recommendations, which have yet to be submitted to the General Assembly.

## **CONDITIONS OF SERVICE OF THE PROFESSIONAL AND HIGHER CATEGORIES**

### *Base/floor salary scale*

20. The Commission decided to recommend to the General Assembly that the current base/floor salary scale for the Professional and higher categories be increased by 1.37 per cent through the standard consolidation procedure, i.e. by increasing base salary while commensurately reducing post adjustment levels, with effect from 1 January 2011.

21. The proposed 1.37 per cent increase in the base salary through the standard consolidation procedure effective January 2011 would be on a no-gain/no-loss basis, as occurs on an annual basis each January. Hence no budgetary impact is anticipated for FAO in the current biennium unless the current Place-to-Place Cost-of-Living survey proposes increases to the post adjustment in April 2011.

### *Evolution of the United Nations/United States net remuneration margin*

22. The Commission decided to report to the General Assembly that the margin forecast between the net remuneration of officials in the Professional and higher categories of the United Nations in New York and officials in comparable positions in the United States federal civil

service in Washington, D.C., for the year 2010 was estimated at 113.3. It also decided to draw the attention of the General Assembly to the fact that the current average margin level for the past five years (2006-2010) was estimated at 114.0, which remained below the desirable midpoint of 115.

23. The Commission decided that its secretariat should commence work on the review of the net remuneration margin methodology in 2011.

24. No budgetary implications for FAO are anticipated as a result of these recommendations in 2010-11.

*Establishment of grade equivalencies between the United States federal civil service and the United Nations system*

25. The Commission, as part of its regular cycle, reviewed an updated grade equivalency study with the current comparator, the United States federal civil service. The establishment and validation of grade equivalencies between the United Nations and the comparator are a key component of the calculation of the net remuneration margin and have been conducted by the ICSC on a five-year cycle.

26. The Commission reviewed the results of the study and of the validation exercise organized with the United States federal civil service. The Commission also reviewed the results of the net remuneration margin calculations based on the incorporation of the results of the study and noted that the outcome was a revised margin of 113.3 for the calendar year 2010 as compared to 112.7 based on the existing grade equivalencies.

27. The Commission decided:

- a) To approve and accept the results of the new grade equivalency study;
- b) To request the Advisory Committee on Post Adjustment Questions (ACPAQ) to review the recommended statistical methods to determine their appropriateness for establishing equivalencies and calculating the net remuneration margin, and report to the Commission at its seventy-second session;
- c) To request its secretariat to review the methodology for determining the grade equivalencies with the comparator with a view to simplifying it; and
- d) To report to the General Assembly that it had conducted a new grade equivalency study as part of its regular review.

28. No budgetary implications for FAO in 2010-11 are as yet able to be calculated as a result of these recommendations.

*Review of gender balance in the United Nations common system*

29. In 1995, the General Assembly called for 50/50 gender distribution at professional and higher levels and in 1996, stipulated that this distribution was to be reached at all levels in the Professional category and above, by 2000. Further, the Assembly reaffirmed the 50/50 goal in 1998 and 2005. Under its mandate from the General Assembly, the ICSC has periodically addressed the status of women in organizations of the United Nations common system.

30. According to the report presented by the ICSC secretariat, the overall representation of women at professional and higher levels in the UN Common System has increased from 38.8 per cent in December 2006 to 39.4 per cent in December 2008. As at 31 December 2008, at the D-1 and above levels, women made up 25.5 per cent of staff compared to 24.6 per cent in 2006, with an overall increase of 0.9% accrued during the two-year period. The overall trends in the representation of women by type of post since 1996 showed that there was a gradual increase of women among the posts subject to geographical distribution compared to the posts not subject to geographical distribution, and the pattern was consistent over the years. Analysis of regional

representation of women in the organizations of the United Nations common system demonstrated that women from Western Europe (including North America) constituted more than half of the population of professional women (55.8 per cent) while the proportion of professional women from Africa, Asia, Eastern Europe, Latin America and Caribbean combined represented only 44.2 per cent overall.

31. The Commission:

- a) Expressed concern that the goal of 50/50 gender balance, especially at the D-1 level and above, remained unmet without any noticeable progress;
- b) Noted with disappointment that the organizations had not implemented all its previous recommendations;
- c) Recalled its recommendations outlined in previous reports;
- d) Urged organizations to enforce existing gender balance policies and measures including the Commission's previous recommendations and conduct regular monitoring on the level of implementation;
- e) Urged organizations to incorporate diversity policies such as geographical balance into gender strategies and policies;
- f) Requested organizations to hold managers accountable through their annual performance appraisal for achieving established annual gender targets;
- g) Requested its secretariat to coordinate with other entities in the United Nations system on monitoring and reporting on gender balance and explore the feasibility of establishing a common data depository for future data collection; and
- h) Resolved to henceforth monitor future progress in achieving gender balance in the organizations of the United Nations common system every four years, and request its secretariat to provide a report on this issue at its 2014 summer session.

32. No budgetary implications for FAO are anticipated as a result of these recommendations in 2010-11.

*Children's and secondary dependant's allowances: review of the level*

33. The Commission decided to recommend to the General Assembly that, as of 1 January 2011:

- a) The children's allowance be set at USD 2,929 per annum and the disabled children's allowance at USD 5,858 per annum;
- b) The secondary dependant's allowance be set at USD 1,025 per annum;
- c) The United States dollar amount of the allowance, as established in subparagraphs (a) and (b) above, be converted to local currency using the official United Nations exchange rate as of the date of implementation and remain unchanged until the next biennial review;
- d) As a transitional measure, where, at the time of implementation, the revised flat-rate allowance were to be lower than the one currently in effect, the allowances payable to currently eligible staff be equal to the higher rate reduced by 50 per cent of the difference between the two rates; and
- e) The dependency allowances be reduced by the amount of any direct payments received by staff from a Government in respect of dependants.

34. The proposed increase of 9% effective January 2011 on the previous allowance effective from January 2009 would result in an increase of approximately USD 0.2m for the Regular Programme in 2011. At present, an increase of 3% effective January 2011 is budgeted, which equated to approximately USD 81,000 for the twelve month period in 2011.



## CONDITIONS OF SERVICE IN THE FIELD

### *Harmonization of the conditions of service for staff serving in non-family duty stations in the common system*

35. With the exception of the United Nations Secretariat, all organizations of the United Nations common system provide some form of compensation for the maintenance of a second household when staff with dependents are assigned to a non-family duty station: the traditional compensation offered is the payment of the Extended Monthly Security Evacuation Allowance (EMSEA) as provided for in the Field Security Handbook. Since the late 1990's, an increasing number of organizations have adopted an alternative approach known as the Special Operations Approach (SOA), whereby staff members required to work in non-family locations have been assigned to a nearby, safer location with the necessary infrastructure in terms of medical and educational facilities and good communication links, where the staff member can establish a home base. To compensate for the maintenance of a second household at the non-family location, staff members are paid an allowance known as the Special Operations Living Allowance (SOLA). SOLA is payable to all staff, irrespective of their family situation.
36. The Secretary-General's proposal for harmonization of conditions of service for staff serving in non-family duty stations also called for harmonization of conditions applying to the United Nations Rest and Recuperation scheme and those applicable to other common system organizations.
37. In response to the request by the Commission, the ICSC secretariat established a technical working group with organizations and staff federations with a view to identifying options for the achievement of harmonization on the two issues of second households and rest and recuperation, respectively.
38. Five options were presented to the Commission on the issue of the second household. After some discussion, the Commission decided not to pursue the option of granting an additional entitlement for the maintenance of a home base as service in a non-family duty station but instead to include an appropriate provision for maintenance of a second household in the hardship scheme which already existed, thereby recognizing the unique hardship created by working at non-family duty stations.
39. With regards to the second issue, thanks to the considerable work already done by organizations to harmonize the rest and recuperation practices, agreement was achieved on a proposed common rest and recuperation framework. This framework would be cost-neutral for the majority of the common system organizations, since it more or less reflected current practices.
40. The Commission decided to recommend to the General Assembly:
- a) Harmonization of designation of duty stations: that the United Nations harmonize the designation of non-family duty stations based on a security assessment, as currently applied by the rest of the common system.
  - b) Service in non-family duty stations:
    - i) Recommend a change to the existing hardship allowance whereby staff serving in non-family duty stations would receive an additional amount in recognition that such service represents an increased level of financial and psychological hardship in terms of:
      - Involuntary separation from families; and
      - Additional costs related to such service.
    - ii) For staff paid at the dependency rate, the additional measure would be 100 percent of the applicable dependency rate of the hardship allowance for category E – the most difficult duty stations – and the hardship matrix would be amended to reflect this accordingly.

- iii) For staff paid at the single rate, the additional measure would be 50 percent of the applicable single rate of the hardship allowance in category E – the most difficult duty stations – and the hardship matrix would also be amended to reflect this accordingly.
  - iv) Staff would continue to receive the normal hardship allowance at the level applicable to the duty station in which they serve.
  - v) Recommend that such a change will be implemented six calendar months after a decision by the General Assembly, in order that organizations might prepare for the implementation.
  - vi) For organizations which currently use the SOA or the EMSEA, transitional measures would apply including the establishment of unified SOLA rates per duty station to be promulgated by the ICSC.
  - vii) All organizations would convert to the new non-family hardship element no later than five years after the General Assembly decision, at which time full harmonization would have been achieved. Organizations which currently used SOA or EMSEA would retain the option of adopting the new additional non-family hardship element at any time prior to the five year deadline, subject to discontinuing the use of EMSEA or SOLA.
  - viii) Newly recruited staff who join the organization on or after a date six months after implementation of a decision by the General Assembly will be assigned under the non-family hardship element as approved by the General Assembly, and should not be offered the option of being assigned under SOA or with EMSEA.
- c) To recommend the proposed harmonized Rest and Recuperation Framework.
  - d) To encourage organizations to the extent possible to absorb additional costs imposed by the framework within existing resources.

41. No budgetary implications for FAO are anticipated as a result of the proposed changes to the hardship allowance in 2010-11. Additional costs are, however, anticipated in future when these changes, assuming General Assembly endorsement, become applicable to FAO (no later than 5 years after the Assembly's decision).

42. No budgetary implications for FAO are anticipated as a result of changes to the Rest and Recuperation Framework in 2010-11. These measures are expected to be cost neutral for the majority of Common System organizations, who are encouraged to absorb the additional costs within their existing resources.

### **UNITED NATIONS JOINT STAFF PENSION BOARD (UNJSPB)**

43. The Governing Board of the United Nations Joint Staff Pension Fund (UNJSPF) held its 57th meeting at the International Maritime Organization (IMO) in London in July 2010. Aside from the standard governance matters, the Board discussed several important issues relating to the Fund's investments, actuarial situation as well as benefits. It is recalled that all the Board's recommendations are put forward to the United Nations General Assembly for its review and resolution. Some of the important issues discussed by the Board are:

#### **ACTUARIAL VALUATION**

44. The Regular Valuation as at 31 December 2009 showed that the required contribution rate as at 31 December 2009 was 24.08 per cent as compared to the current contribution rate of 23.70 per cent, resulting in an actuarial deficit of 0.38 per cent of pensionable remuneration. The Committee commented that this valuation was the first in many years to reveal a contribution rate deficiency and noted that the six previous valuations had disclosed surpluses of 0.36, 4.25, 2.92, 1.14, 1.29 and 0.49 per cent of pensionable remuneration. The change from a surplus to a deficit was primarily the result of losses attributable to investment experience as reflected in the actuarial

value of assets and the effect of updating the pension commutation factors to include the effect of the 2007 United Nations Mortality Tables. These losses were partially offset by gains attributable to cost of living adjustments that were lower than expected. The Committee concluded that it should not be assumed that the positive elements that had contributed to the improved financial position of the Fund over the past several valuations would continue to be achieved to the same extent in the future, exposing the Fund to the risk of higher required rates.

45. In reviewing the results, the Board stressed the need for caution and prudence regarding any changes to the UNJSPF Regulations and Rules, particularly in light of the deficit revealed by the current actuarial valuation. The Board also reviewed the results of the study on the actual emerging costs/savings of the modifications of the two-track feature of the Pension Adjustment System. It noted that no changes needed to be made at this time, either as regards (a) the rate of contribution or (b) the current parameters of the revised "Washington formula" and of the cap provision. It also agreed, however, that consideration of the costs and/or savings of the modifications of the two-track system since 1992 should continue to be monitored at the time of completion of actuarial valuations and that any definitive trends should continue to be identified and reported to the Board. Moreover, the Board requested that the Secretariat monitor the emerging costs/savings of the modifications of the two-track feature of the Pension Adjustment System and report to the Board at its fifty-ninth session in 2012.

**Funded ratios 1988 - 2009**

Valuation as of 31 December	<i>If future pension payments are made:</i>	
	<i>Without pension adjustments</i>	<i>With pension adjustments</i>
	(Per cent)	(Per cent)
1988	123	70
1990	131	77
1993	136	81
1995	132	81
1997	141	88
1999	180	113
2001	161	106
2003	145	95
2005	140	92
2007	147	95
2009	140	91

	<i>(Millions in US dollars)</i>	
	<i>31 December 2009</i>	<i>31 December 2007</i>
<b>Liabilities</b>		
Present value of benefits:		
Payable to or on behalf of retired and deceased participants	24,395.6	21,895.1
Expected to become payable on behalf of active and inactive participants, including future new entrants	89,614.7	75,374.7
<b>Total liabilities</b>	<b>114,010.3</b>	<b>97,269.8</b>
<b>Assets</b>		
Actuarial asset value	38,154.0	35,620.4
Present value of future contributions	74,634.0	62,972.3
<b>Total assets</b>	<b>112,788.0</b>	<b>98,592.7</b>
<b>Surplus (deficit)</b>	<b>(1,222.3)</b>	<b>1,322.9</b>

### INVESTMENTS OF THE FUND

46. The Representative of the Secretary-General (RSG) for the investments of the United Nations Joint Staff Pension Fund, introducing the report on the management of investments of UNJSPF from 1 April 2009 to 31 March 2010, pointed out that since the last session of the Pension Board, the markets had recovered, and that the market value of the Fund increased as a result of prudent stock election, global diversification and tactical rebalancing.

47. The Investment Management Division (IMD) had captured the benefits of the positive market trends and had concurrently worked to strengthen the investment infrastructure and to reduce transactions costs. The recovery in global equities arose from the March 2009 cycle lows. Markets regained their bearings from the deepest and most synchronized economic contraction since the Great Depression. Risk appetites had improved as evidenced by the out-performance of the weakest elements of the banking sector, some real estate companies, low quality equities and even riskier bonds. During the second half of 2009, the IMD completed a strategic rebalancing of the portfolio by purchasing over USD 1.6 billion worth of equities. This helped raise the equity weighting of the portfolio from 51.9 per cent as of 31 March 2009, up to 61.6 per cent as of 31 July 2009.

48. For the fiscal year ending 31 March 2010, the total market value of the fund increased by 32.2 per cent; the highest return the Fund has achieved in any previous year. Notably, equities in emerging markets rallied strongly, by more than 80 per cent. The Fund benefited from an overweight position in Global Emerging Markets. The Fund slightly underperformed the 60/31 benchmark by 1.09 per cent owing to the Fund's risk approach to portfolio construction, partially offsetting the out-performance of 1.47 per cent in the previous fiscal year when the Fund declined by 28.3 per cent during the financial crisis. In the two year period ending 31 March 2010, the Fund had an annualized out-performance of 0.47 per cent. The Fund remained deliberately underweight in financials during the financial crisis. The relative underperformance in 2009 was a reflection of the rally in the lowest tier of banking institutions, which entities were not represented in the portfolio. In accordance with the Fund's risk adverse investment strategy, the Fund did not invest in certain securities that just survived "near-death experiences" during the recovery rally. While the banking industry could not be addressed monolithically, the United States and European banks did not appear to have absorbed fully the losses emanating from the credit crisis.

49. The Fund outperformed the 60/31 benchmark in the last 3, 5, 7 and 10 years. Over the long term, through active management, the Fund has outperformed the policy benchmark with effective stock selection and periodic re-balancing of assets.
50. The RSG explained the evolution in the level of investment income received by the Fund. The Fund's income, including interest earned, dividends, profit/loss on sale of investments, and the prior year adjustment was a net income of USD 0.556 billion in the calendar year 2009, which compared to USD 3.99 billion in calendar year 2007 and USD 2.146 billion in calendar year 2008.
51. The RSG also provided a detailed explanation regarding the realized net loss of USD 467 million recorded during the calendar year of 2009, noting that the more significant figure was the unrealized gain of USD 6.2 billion. In a long term portfolio with relatively low turnover, such as the Fund, the unrealized amounts dwarf the realized gains and losses. This was demonstrated clearly with respect to the large unrealized gains of USD 6.2 billion from portfolio holdings in 2009. The realized losses were mainly generated in conjunction with the disposal of poorly performing instruments. The RSG was of the opinion that those transactions were prudent as they allowed the Fund to improve the overall quality of the portfolio. The realized net loss, while a significant amount in absolute terms, was small relative to the Fund size, the trading volume and unrealized gains in the portfolio. There was no guarantee of positive returns in any investment activity and reasonable risk taking was essential for the Fund to achieve its long-term earnings target. The RSG highlighted that the Fund gained 21.81 per cent in calendar year 2009 and there were unrealized gains amounting to USD 6.2 billion as well as realized interest and dividend income of USD 1.0 billion during the same calendar year of 2009.
52. The Governing Bodies expressed overall satisfaction with the efforts made by IMD and IC. The rebound in 2009 of the Fund's market value was impressive. However, the Governing Bodies mentioned that there was a room for improvement including in-depth analysis of the transactions, lessons learnt, notes of caution on exposure to additional risks, and post-sales analysis. The improvement in cash management was important.
53. The Participants Group expressed their concern about the realized net loss of USD 467 million on securities transactions during the calendar year 2009. They highlighted the need for transparency and disclosure in a more detailed and timely manner. The Representative of the Secretary General for Investments concurred that more detailed statements, prepared in accordance with International Public Sector Accounting Standards (IPSAS) using the new Operations and Portfolio Management System, under procurement, would deliver more clarity and timeliness with respect to the accounting elements.
54. The Board expressed its appreciation to the RSG and the Director of IMD for their openness and readiness to share information. It also expressed its satisfaction for the detailed explanation regarding the performance numbers.

Table 1: Performance for the calendar year 2009

Market Value 2008	<b>\$31,083,646,185.00</b>
Market Value 2009	<b>\$37,306,429,925.00</b>
Unrealized Gain	<b>\$6,222,783,740.00</b>
Realized Income	<b>\$1,023,856,990.00</b>
Net Realized loss*	<b>(467,533,851.67)</b>
Net realized income	<b>\$556,323,138.33</b>
Total income	<b>\$6,779,106,878.33</b>
Performance	<b>21.81%</b>

\* Losses were recognized when underperforming investment instruments were pruned from the portfolio, in keeping with prudent risk management. Equivalent to 1.25% of the closing market value 2009 during which period overall performance gained 21.81%.

Table 2: Investment performance for the Biennium 2008-2009

	2009	2008	2008/2009
Realized Losses*	(1,585,026,248.72)	(1,155,537,525.40)	(2,740,563,774.12)
Realized Gains	1,117,492,397.05	2,034,732,023.40	3,152,224,420.45
(a) Net Realized Gains/Losses**	<b>(467,533,851.67)</b>	<b>879,194,498.00</b>	411,660,646.33
(b) Income from dividend and interest	1,023,856,990.00	1,266,664,851.00	2,290,521,841.00
(a + b) Net Income including realized gains/losses	556,323,138.33	2,145,859,349.00	2,702,182,487.33
Total Trading Volume	13,328,393,148.10	11,320,584,264.68	24,648,977,412.78
Ratio Realized G&L /Trading volume***	-3.51%	7.77%	1.67%

\*Total realized losses of US\$ 2.7 billion reported by the Board of Auditors for the biennium 2008-2009. This indicator is monitored to measure the trading activity. Please note that in the same period the realized gains of US\$ 3.2 billion more than counterbalanced the realized losses resulting in net gain of US\$ 0.4 billion.

\*\* Net realized gains (US\$ 0.4 billion) for the biennium 2008-2009

\*\*\*This ratio depicts the percentage of gains/losses versus the volume traded by IMD to rebalance the portfolio in order to meet the tactical asset allocations as recommended by the Investments Committee. This involved a pruning of the portfolio to remove the underperforming instruments and applying the proceeds to better performing instruments so as to set the Fund to take advantage of the market turn around.

Chart 1: 2008 and 2009 calendar year investment performance

