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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 Alimentación y la Agricultura
منظمة الأغذية والزراعة للأمم المتحدة

FINANCE COMMITTEE

Hundred and Fifty-fourth Session

Rome, 26 - 30 May 2014

Report on Investments 2013

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

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EXECUTIVE SUMMARY

- Long-Term Investments: This USD 433 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 1,213 million at 31 December 2013. 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 2013 the long term portfolio yielded an excellent return of 13.68 % thanks to the remarkable Equity portfolio performance for the year. The long term portfolio benchmark return was 12.26%, and the excess return for the long term portfolio was 1.42%.
- Short-Term Investments: This USD 982 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 2013 kept returns very low, with a total return of 0.19% for the year. However, this exceeded the benchmark return by 16 basis points.
- Investment Governance: The investment policy of Short Term investments as fully described in Annex 1 to this document, is designed in close collaboration with the Organization’s technical advisor, the World Bank. In March 2013, following recommendations from the Advisory Committee on Investments and the Investment Committee and final approval from the Director General, part of the existing assets in the long term portfolio were invested into Emerging Market Debt. In late 2013, a detailed Asset and Liability study (ALM) was conducted by an external advisor on long-term assets. The asset allocation recommendations will be reviewed and commented on by the internal Investment Committee and the external Advisory Committee on Investments and final authorization on implementation will be taken by the Director General.
- Risk Level: At the 148th Session of the Finance Committee in March 2013, the Committee requested the Secretariat to consider the feasibility of increasing its investment risk level in light of the improved investment climate. The risk levels of FAO Investments were reviewed and discussed with the Advisory Committee on Investments, a committee composed of external experts with substantial investment expertise from the World Bank, IMF, African Development Bank and the Bank for International Settlements (BIS). The Committee noted the low risk - low return profile of FAO's short term portfolio and advised high prudence in eventual changes to the current investment policy. For the long-term portfolio, members noted that risk levels were already relatively high. Part of this risk was due to the limited diversification of the portfolio across asset classes, notwithstanding the recent move into emerging markets.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

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

Draft Advice

- **The Finance Committee takes note of the Report on Investments 2013**.

BACKGROUND

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.”

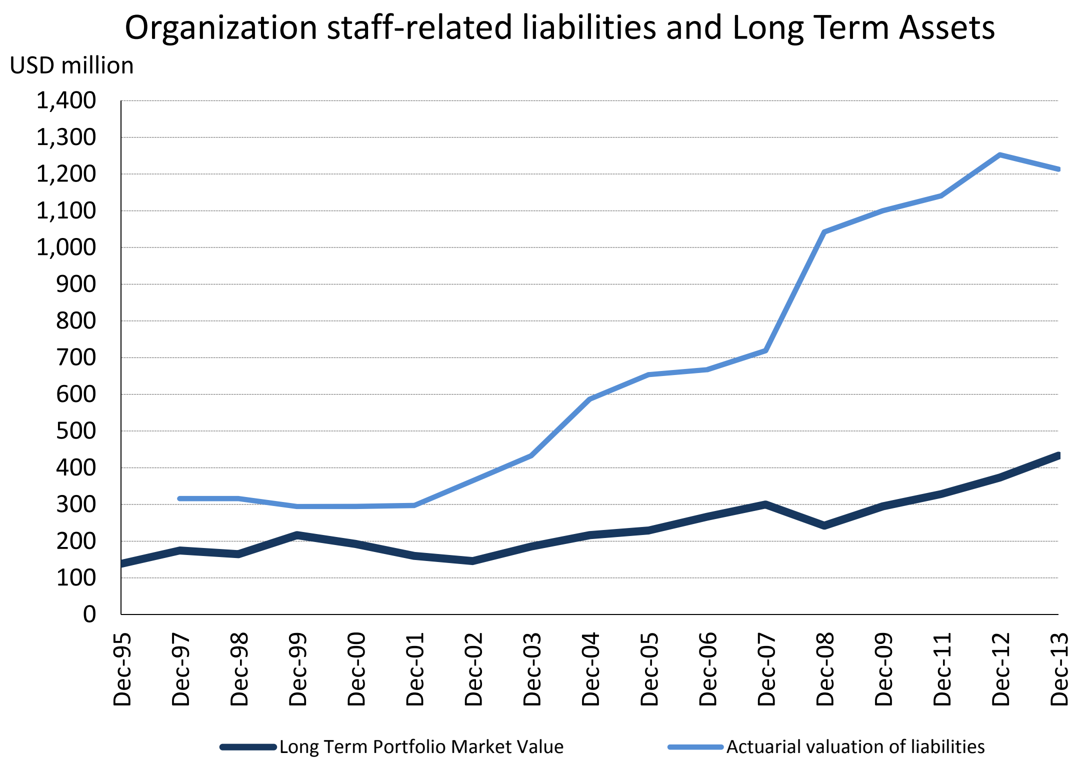
Long-Term Investments

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.
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 2013, carried out by a specialized firm, placed the Organization's share of total staff-related liabilities at USD 1,213 million, below the figure for 2012 of USD 1,252 million. Staff-related liabilities are under review by the Finance Committee in document FC 154/3 - 2013 Actuarial Valuation of Staff Related Liabilities.

6. The latest actuarial estimation of all staff-related liabilities included USD 1,037 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 2012-2013. The same amounts were authorized in 2004-2005, 2006-2007, 2008-2009, and 2010-2011.

7. The ASMC Funding for 2012-13 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 2.940 million and EUR 5.102 million were transferred to the long term portfolio in 2013.

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 2013 was as follows:

2013 Long Term Portfolio Asset Allocation

Manager	% Portfolio	Assets USD
	Equity	
PanAgora AM	51.36%	222,636,200.00
	Fixed Income	
LGT AM	20.37%	88,318,160.88
FFTW AM	20.49%	88,824,141.03
Payden & Rygel*	7.77%	33,689,346.95
TOTAL LT PORTFOLIO		**433,467,848.85**

values at 31/12/13

GIPS compliant values

* In March 2013, following recommendations from the Advisory Committee on Investments and the Investment Committee and final approval from the Director General, part of the existing assets in the long term portfolio were invested into Emerging Market Debt.

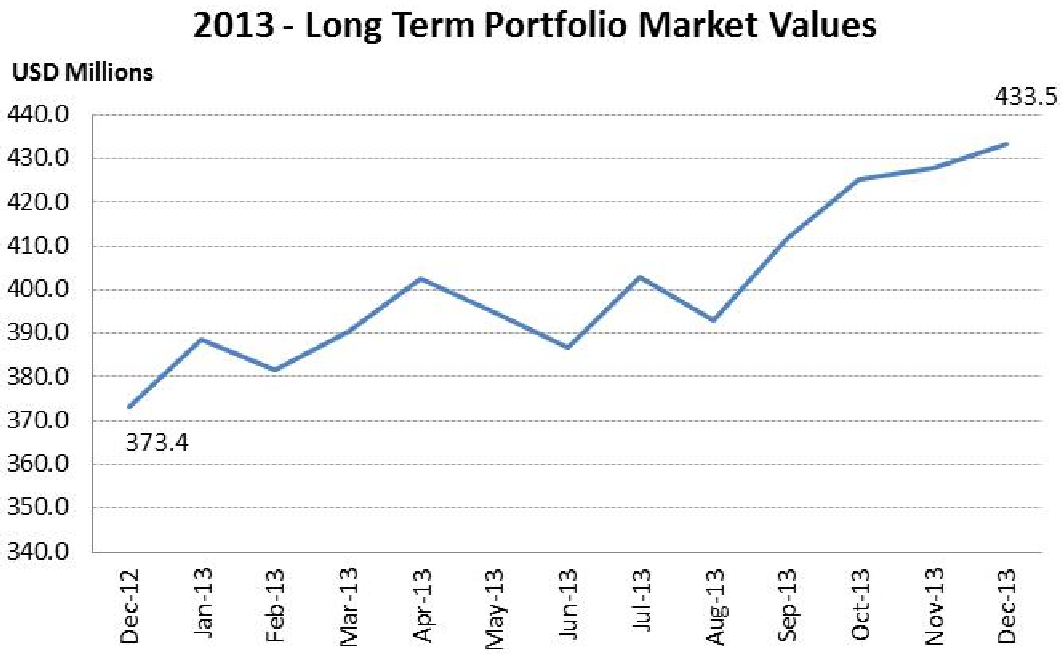
9. Rebalancing of the funds occurs at month end if the ratio is out of balance by more than 5%. When possible, active rebalancing by FAO Treasury using ASMC contributions is carried out.

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

- For the equity portfolio: The Morgan Stanley Capital International Inc All Country Index;
- For the fixed income inflation linked holdings: A blend of 80% Barclays World Government Inflation Linked Bonds Index + 20 % and Merrill Lynch EMU Direct Government AAA Bonds Index; and
- For fixed income emerging market debt: A blend of 70% Emerging Market Bond Index Global Diversified (EMBI) +30% JPM Government Bond Index - Emerging Markets Global Diversified (GBI- EM).

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 2013.



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 2013.

CASH FLOW 2013		Amount USD
Market Value 31/12/2012*		**373,355,313.00**
Net variance of unrealized gain/loss		11,638,237.90
Realized gain/ loss		32,222,688.51
Income dividends and interest		7,558,039.99
Management, custodial and advisory fees	-	1,509,874.58
ASMC Funding		9,704,647.38
Accrued income change	-	37,644.93
Market Value at 31/12/2013*		**432,931,407**

*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 2013 for the long term funds expressed in USD was 13.68% versus 12.26% for the benchmark.

2013 Long Term Portfolio Return

	Equity USD	
Manager	**PanAgora AM**	29.10%
Benchmark	*MSCI World Index*	*26.68%*
	Fixed Income EUR	
Manager	**LGT AM**	-4.96%
	FFTW AM	-4.38%
Benchmark	*80% Barclays World Gov't Inflation Link'd +20% Merrill Lynch EMU Direct Gov't AAA Bond Index*	*-5.01%*
Manager	**Payden & Rygel***	-8.95%
Benchmark	*70% Emerging Market Bond Index Global Diversified (EMBI) +30% JPM Government Bond Index - Emerging Markets Global Diversified (GBI- EM)**	*-5.72%*
TOTAL LT PORTFOLIO		**13.68%**

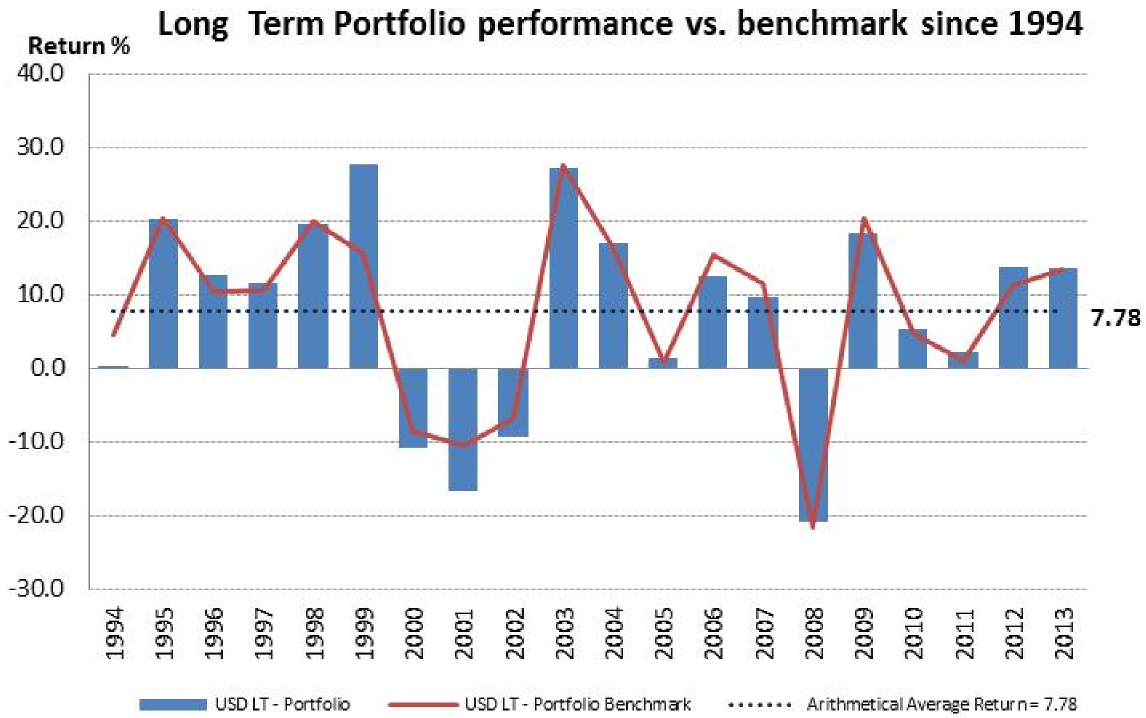
Portfolio Return (weighted average of equity and fixed income portfolios)	13.68%
Benchmark Return (weighted average of equity and fixed income portfolios)	12.26%
Excess Return (portfolio return over benchmark)	1.42%

values at 31/12/13

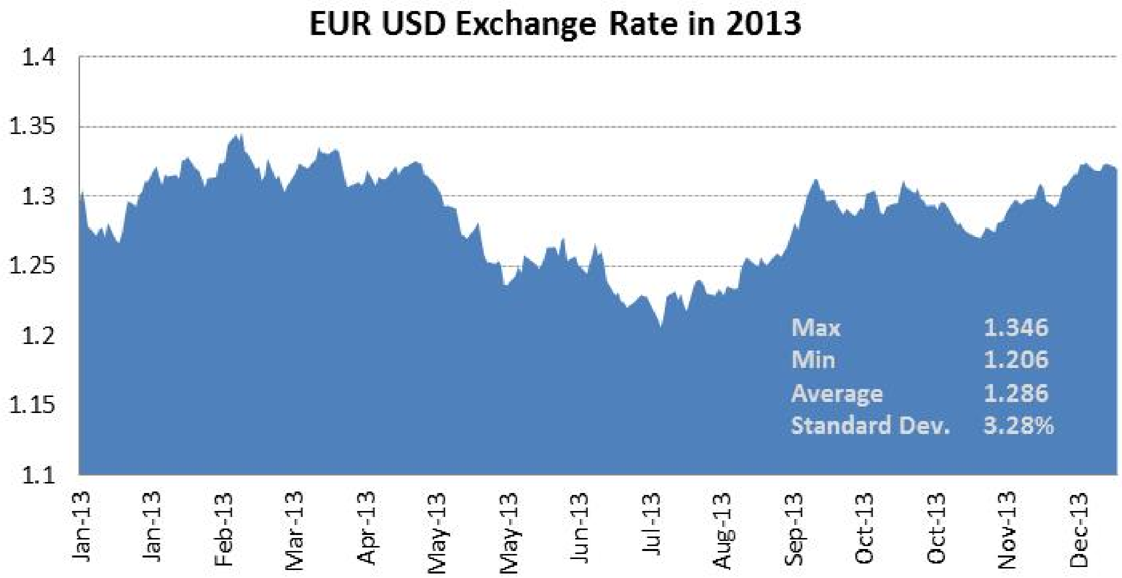
* The performance figures for the Emerging Market Bond investment, managed by Payden & Rygel, are from inception , the 7th March 2013.

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 1994-2013 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 arithmetic average performance of the long term portfolio since 1994, i.e. 7.78%.



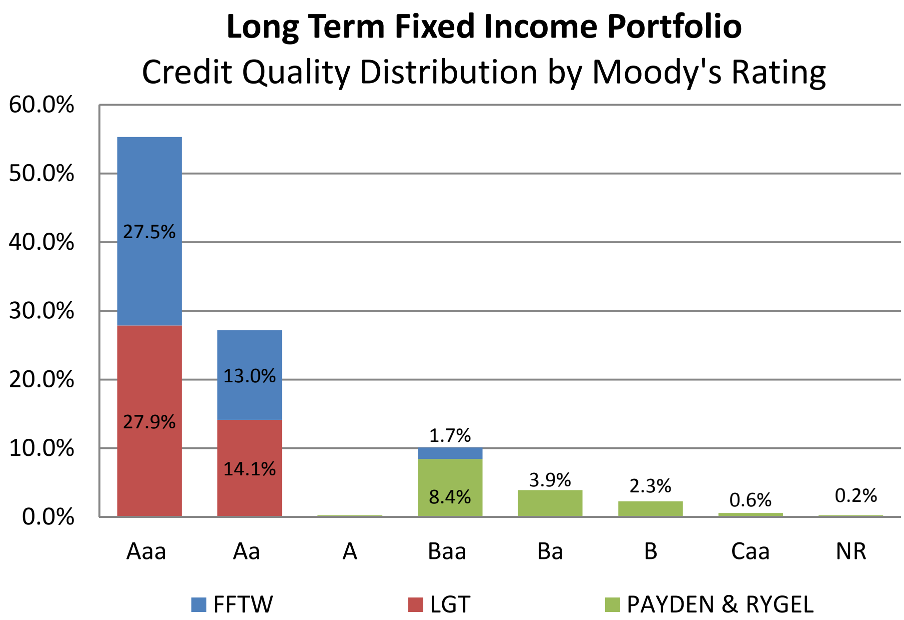
c) The chart below illustrates the movements in the USD/EUR rate over the course of 2013. Movements in the value of the EUR have a direct effect on USD measured returns.



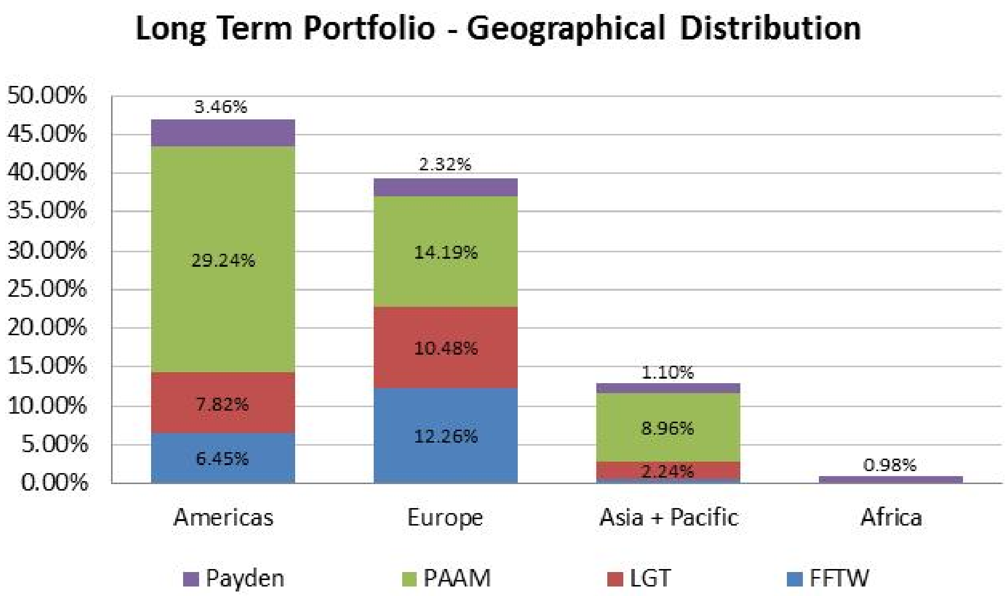
Source: Bloomberg

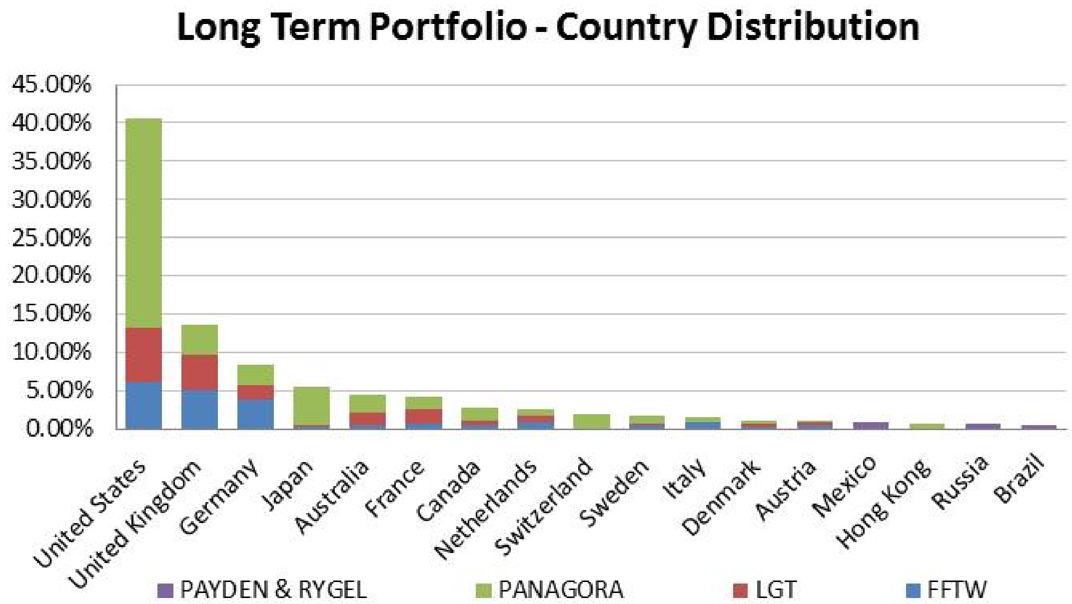
14. The chart below provides a breakdown of the assets in the long-term fixed income portfolio by credit quality. 82.5% of assets are in the Aaa-Aa space, confirming the low risk profile of investments.

The addition in 2013 of the emerging market debt investment with Payden & Rygel has added exposure to assets in lower credit categories, particularly in the Baa space where exposure reaches 10% of total market value.



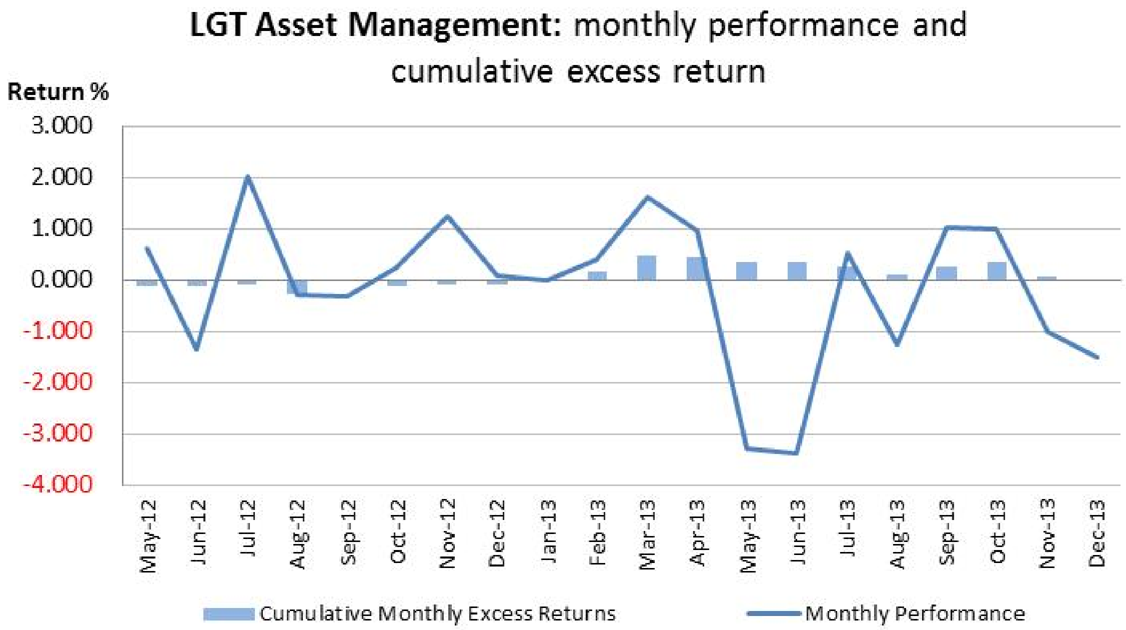
The Long Term Portfolio's geographical exposure is analysed below: the graphs show the funds' exposure by geographical area. The addition of the investment in Emerging Market Debt through the fund managed by Payden & Rygel has added exposure to South America, Eastern Europe, regions of the Pacific and to Africa.

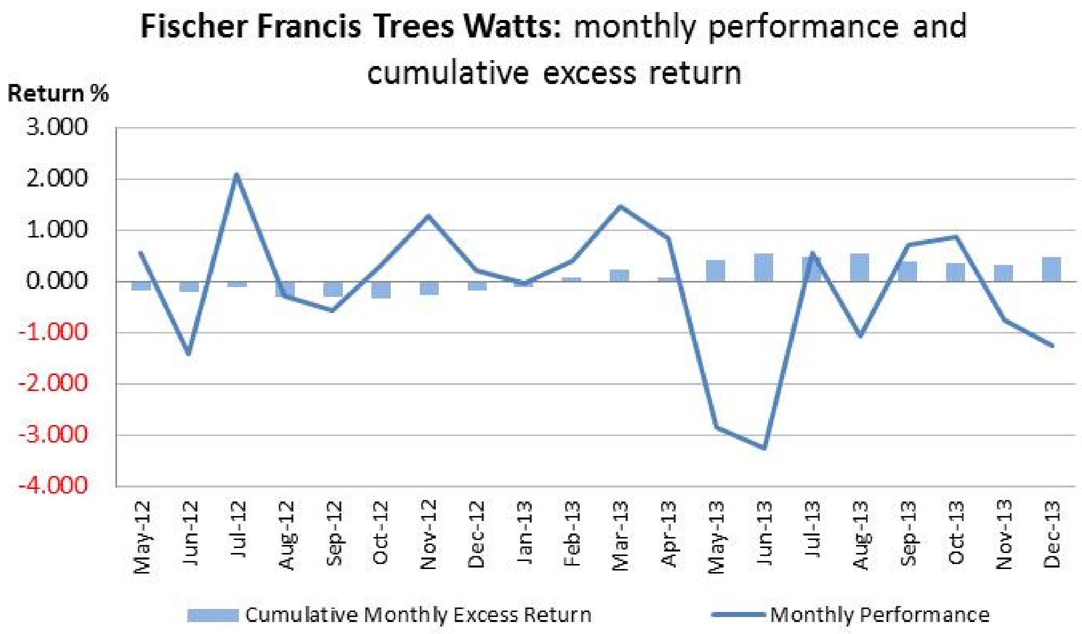




Long -Term Portfolio 2013 Performance and Excess returns

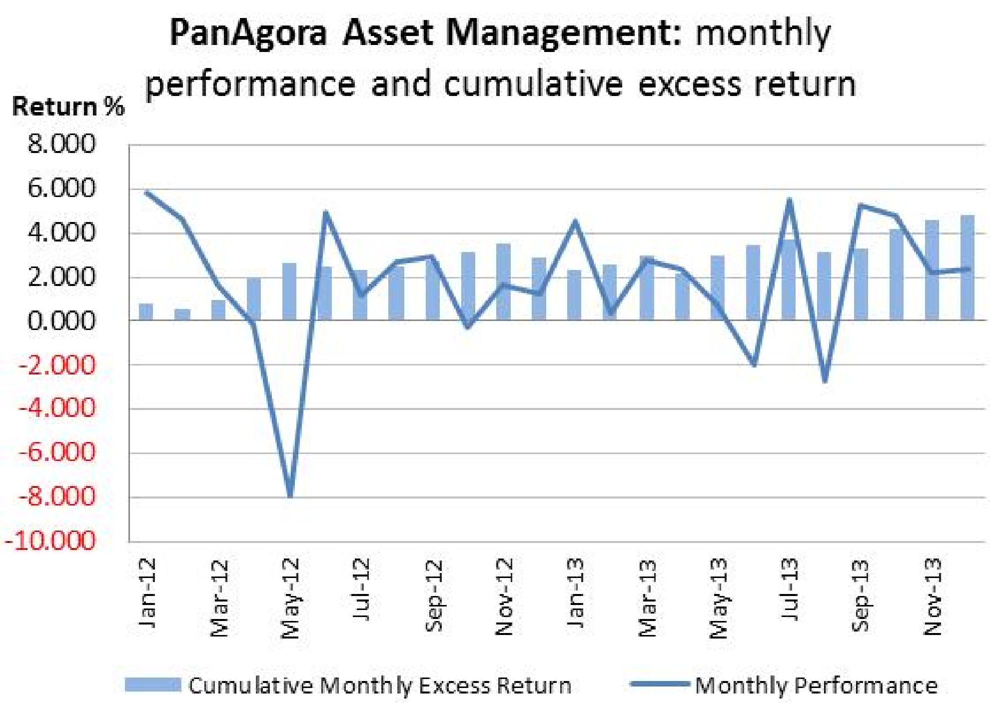
15. The review of Long Term Investments includes an analysis of performance and excess returns. Monthly returns and cumulative monthly excess returns are graphed over the past two years, 2012 and 2013, as shown below.





Both the fixed income inflation linked portfolios have generated modest excess returns over the last two years, performing closely to their benchmark. Over the two years, FFTW has generated 0.47% excess return, whereas LGT' excess return was -0.02%

16. Although there has been volatility in returns over the past two years, the equity portfolio managed by PanAgora has provided constant excess returns and excellent performance. Over the past two years excess return has been 4.85% .



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 and the World Bank 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 2012	At 31 December 2013
Bank for International Settlements	455,035,019.44	530,160,931.00
World Bank	200,464,836.78	250,770,944.00
Wellington AM	183,014,678.34	183,154,716.00
HSBC EUR Liquidity Fund	9,751,049.21	15,869,527.43
NT Government Select Fund	1,532,341.26	1,546,585.00
Total	**849,797,925.03**	**981,502,703.43**

18. During 2013, 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 2013.
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.

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 2013 was dominated by the extreme low interest environment for very low risk USD investments. The overall performance was 0.19 % for the year.

2013 Short Term Portfolio Return

Actively Managed

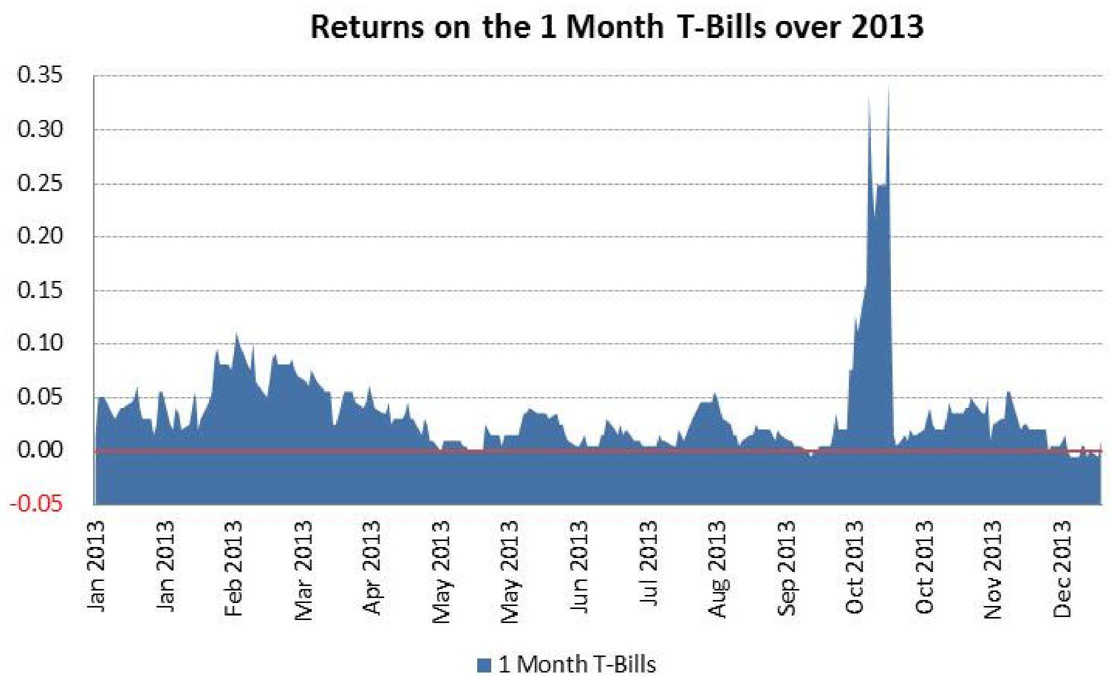
Manager	**World Bank**	**0.34%**
Benchmark	*Bofa Merrill Lynch U.S. Treasury Notes & Bonds, 0-1 Yr Index*	*0.17%*
Manager	**Wellington Management**	**0.24%**
Benchmark	*Merrill Lynch 3 Month T-Bills*	*0.07%*

Deposits and Liquidity Funds

Manager	**HSBC Liquidity Fund**	**0.01%**
	Northern Trust Liquidity Fun	**0.01%**
Institution	**BIS**	**0.11%**
Benchmark	*1 Month T-Bills*	*0.03%*

TOTAL ST PORTFOLIO	**0.19%**
Portfolio Return (weighted average of all short term asset return:	**0.19%**
Benchmark Return (1 Month T-Bills)	*0.03%*
Excess Return (portfolio return over benchmark)	**0.16%**

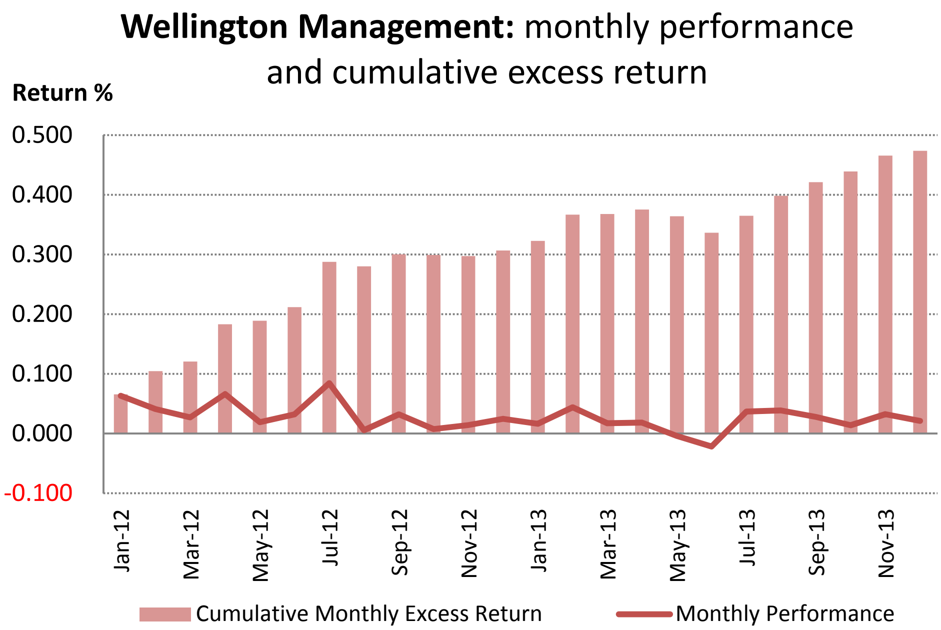
The annual returns for 1 Month T-BILLS in 2013 are graphed below for further comparison.



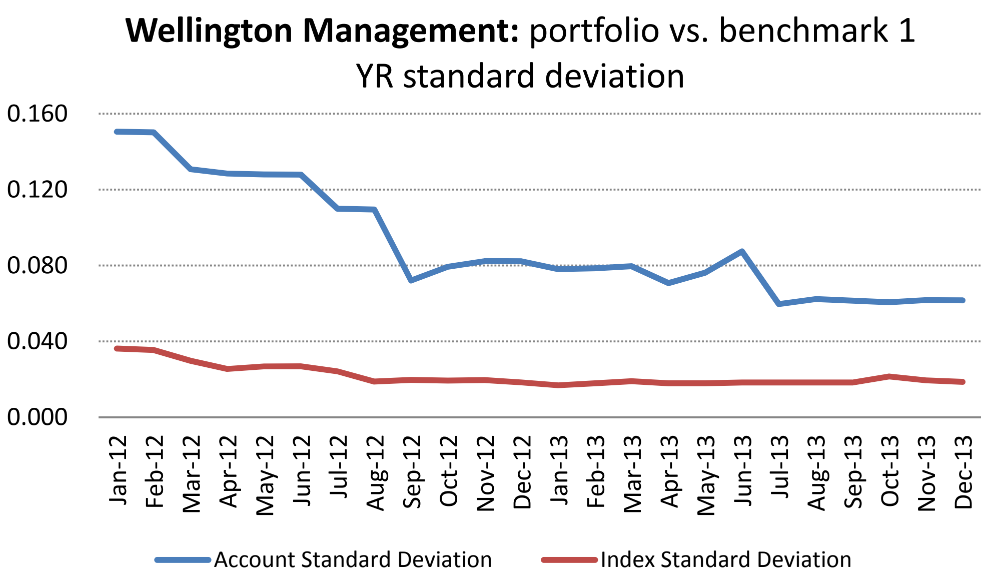
Short-Term Portfolio 2013 Excess Returns and Standard Deviation

22. The review of Short Term Investments includes an analysis of our two short duration managers, Wellington Management's and the World Bank's returns and standard deviation vs. Benchmark.

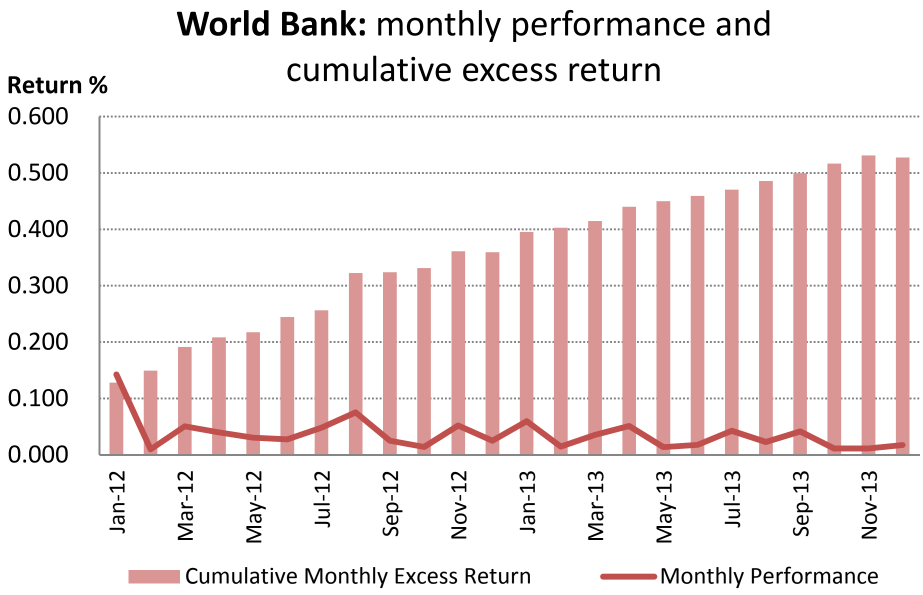
Monthly returns and cumulative monthly excess returns are graphed over the past two years, 2012 and 2013, as shown below. Also graphed below is the portfolio's standard deviation vs. that of its benchmark.



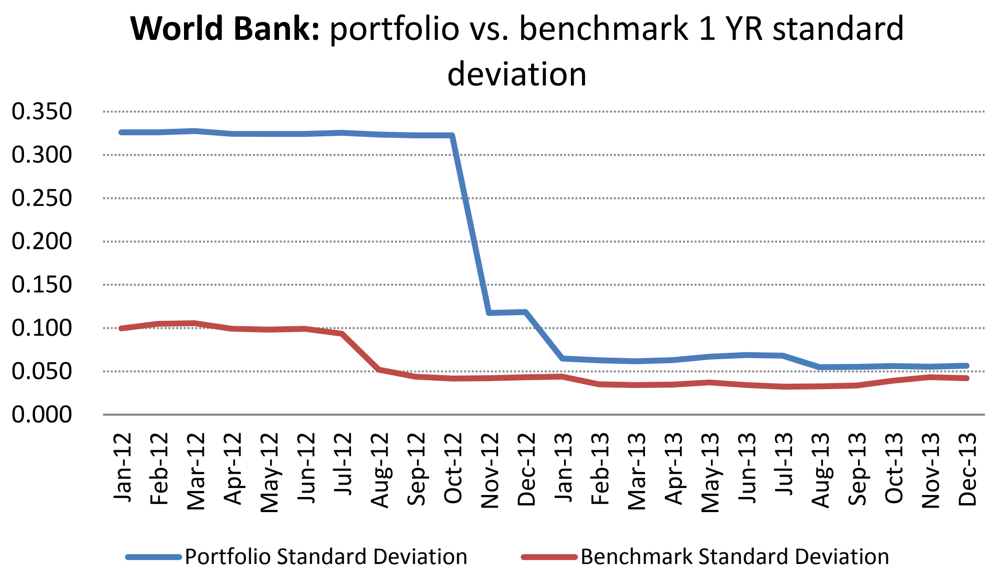
23. Over the two years, Wellington has provided constant excess returns, exceeding its benchmark almost all months, and excess returns totalled 0.47%. As shown below, the standard deviation of this portfolio has decreased over the last year averaging 0.09%, and is persistently above the standard deviation of its benchmark, Merrill Lynch 3-Month T-Bills.



24. As shown below, the World Bank portfolio's excess return profile is also constant and has totalled 0.53% over the last 2 years.



25. The 1 year standard deviation for this portfolio has greatly decreased as returns have been more constant after a downgraded security which had caused some deviation in performance in 2011 matured in April 2013. Over 2013, the 1 year standard deviation has moved closer to that of the benchmark and is around 0.06%, as shown in the graph below.



Investment Governance at FAO

26. 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. This study was conducted at the end of 2013. The asset allocation recommendations will be reviewed and commented on by the internal Investment Committee and the external Advisory Committee on Investments and final authorization on implementation will be taken by the Director General.

27. Short Term asset allocation strategies are designed in close collaboration with FAO’s technical investment advisor, the World Bank.

28. 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).

29. 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 African Development Bank. The World Bank also serves as the Organization’s technical investment advisor.

30. 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 call for tenders with a final selection process carried out with the assistance of the World Bank.

31. Day-to-day control over the external managers, including daily compliance monitoring, is done by the Organization’s Treasury Branch in Finance Division. The Treasury unit also provides regular reporting to the Director of Finance, 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 Branch regularly.

32. 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.

33. The Investment Policy (for Short Term Investment) is provided in Annex 1.

Investment Expenses

34. The table below outlines the investment expenses incurred in the year 2013.

35. Investment related expenditure has increased from USD 2.8 million to USD 3 million, due to the extra staffing cost in CSFT and the ALM study conducted in 2013. The management fees in 2013 were in line with the 2012 levels. This figure includes a substantial performance fee paid to the long term equity portfolio manager, PanAgora Asset Management, for the outstanding excess return achieved in 2013.

36. However, given the increase in value of the total portfolio, from USD 1,220 million in 2012 to USD 1,410 million in 2013, the investment expense ratio is almost unchanged , it is in fact slightly lower, it has gone from 0.23% in 2012 to 0.22% in 2013.

Investment Service Provided	2013 Expenditures in USD
Management, custodial and advisory fees	2,229,642.54
Treasury staffing (three professional posts)	659,508.00
ALM Study	109,596.41
Advisory Committee on Investments Meetings, Investor compliance and Training Costs	33,019.85
Bloomberg Terminal	19,760.70
Total Expenses	**3,051,527.50**
Total Assets at 31/12/2013	**1,410,111,936.23**
Total Expense Ratio	**0.22%**

ANNEX 1

FAO Rome
Investment Policy
(for Short Term Investments)

Purpose

The purpose of this policy is to set out the principles and broad parameters of investment of funds entrusted to FAO (the ‘Organization’), which are not immediately required in programme implementation (the ‘short term investments’). Investment of funds relating to the Employee Benefits Fund will be made separately, pursuant to the recommendations of an asset-liability management (ALM) study which will be done on a regular basis, but at least once every six years.

Authority

This Investment Policy is developed pursuant to Financial Regulation IX 9.1 which states that “The Director General may invest moneys not needed for immediate requirements seeking, wherever practicable, the advice of an Advisory Committee on Investments composed of not less than three and not more than five members appointed by the Director-General from persons outside the Organization having substantial experience in the financial sector. The investment of moneys standing to the credit of any Trust Fund, Reserve or Special account shall be subject to any directives of the appropriate authority”.

Objectives

The primary objective of the Investment Policy is the preservation of the value of resources, in US dollar terms. Within this general objective the principal considerations for investment management are: (i) security of principal, (ii) liquidity, and (iii) rate of return. All statements in this Policy are based on mark-to-market accounting principles being used for valuation of investments, in accordance with internationally accepted accounting standards.

Investment Horizon

The investment horizon for any portfolio can be viewed as the minimum length of time or periodicity over which the rate of return on that portfolio, or changes in the market value of that portfolio, have meaningful significance for the Organization its governing body. The risk tolerance parameters are typically expressed with reference to the specified investment horizon.

Accordingly, the investment horizon for the total short term investments portfolio shall be one year , since FAO allocates income on trust fund balances (which constitute the majority of balances in the short term investments portfolio) on a yearly basis

Risk Tolerance

The Organization’s risk tolerance for the total short term investments portfolio is expressed as a negligible probability of negative return over the specified investment horizon of one year . This reflects the operational necessity of minimizing the probability of negative returns over any yearly period, taking into account current FAO practice relating to allocation of income on trust fund balances.

Portfolio Tranching and Benchmarks

In accordance with the investment principles mentioned above, the available cash balances shall be allocated to one of four tranches of the short term investments portfolio, as provided below.

- The DL (daily liquidity) tranche shall not be benchmarked, and will be invested in 1-7 day Libor based instruments.
- The ML (monthly liquidity) tranche shall be benchmarked against the BofA Merrill Lynch 1-month US T-bill index, and will be invested in US government , US government-guaranteed instruments or deposits with the BIS (Bank for International Settlements) .
- The 3 ML (3 month duration) tranche shall be benchmarked against the BofA Merrill Lynch 3-month US T-bill index, and will be invested in US government or US government-guaranteed instruments, or in US government agency securities. This tranche shall be managed by external investment manager(s).
- The 6 ML (6 month duration) tranche shall be benchmarked against the BofA Merrill Lynch US Treasuries Notes & Bonds 0-1 year index, and will be invested in government securities, government agencies, other official entities and multilateral organization securities, and highly ranked bank and other financial institution obligations. This tranche shall be managed by external investment manager(s).
- The 12 ML (1 year duration) tranche shall be benchmarked against the BofA Merrill Lynch US Treasuries Notes & Bonds 0-2 year index, and will be invested in government securities, government agencies, other official entities and multilateral organization securities, and highly ranked bank and other financial institution obligations. This tranche shall be managed by external investment manager(s).

Composition and Rebalancing of different Tranches

The Chief of Treasury Operations is responsible for presenting proposals on the composition and sizes of the portfolio tranches to the Investment Committee. The Director-General will decide on the composition of the tranches of the short term investments portfolio based on the recommendations of the Investment Committee. The Chief of Treasury Operations will be responsible for periodically rebalancing the size of the portfolio tranches, as needed, in order to remain within the Organization's risk tolerance parameters.

Responsibilities of External Investment Managers

Subject to the contract between the Organization and the external investment manager, the external investment manager shall be responsible for making all investment decisions regarding the assets under its management, including the decisions to buy, sell and hold securities, and will be held accountable for following the investment guidelines and achieving the investment objectives as stated in the contract.

Performance Evaluation of External Investment Managers

The performance of external investment managers shall be measured relative to the benchmark, and excess return objective, as specified in the contract. In particular, the main criteria for evaluation will be:

- Excess Returns (defined as the total return on the portfolio less benchmark return; with total return calculated on a time-weighted basis combining capital gains and losses and interest income, adjusting for cash inflows and outflows, and compounding monthly) for rolling 12- and 36-month periods; and
- Information Ratio for rolling 12- and 36-month periods, determined by dividing the annualized Excess Return by the ex-post tracking error (defined as the annualized standard deviation of the monthly Excess Returns).

Termination of External Investment Managers

The contract of any external investment manager may be terminated for the following reasons:

- failure to take any actions specified in the contract;
- failure to meet the performance objectives specified in the contract;
- a significant change in investment style and/or investment process at any time subsequent to their selection as an investment manager by the Organization .
- a significant change in the composition of their investment team at any time subsequent to their selection as an investment manager by the Programme;
- any change in the Organization’s investment policy which renders an external investment manager, in Organization’s judgment, unsuitable to manage the funds entrusted to them; and
- any other developments which, in the Organization’s judgment, render a manager unsuitable for continuing with their contract.

Responsibilities of the Global Custodian

Subject to the contract between the Organization and the Global Custodian, the Global Custodian is responsible for core custody products such as safekeeping of assets, settlement of transactions, collection of income, tax reclamation, valuations and portfolio accounting. The Global Custodian may provide other ancillary services such as risk analysis, performance measurement, and compliance reporting, in accordance with needs determined by the Organization.

Periodic Review of Strategic Asset Allocation and Benchmarks

The strategic asset allocation of the different tranches and their benchmarks shall be reviewed periodically to ensure that they are consistent with the risk tolerance parameters specified in the risk tolerance paragraph , particularly in the event of significant changes in the market environment, such as the level of interest rates.

Periodic Review of Investment Policy and Risk Tolerance

The overall tranching structure of the short term investments portfolio and the risk parameters specified in the risk tolerance paragraph, shall be reviewed at least once every 3-5 years to ensure that the investment policy framework adequately reflects the evolving nature of the Organization’s mission and operations.

Implementation and guidelines

The Investment Committee is instructed to ensure that the appropriate operational procedures and guidelines are prepared and approved in line with this policy.