



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

Organización  
de las  
Naciones  
Unidas  
para la  
Agricultura  
y la  
Alimentación

## FINANCE COMMITTEE

### Hundred and Thirteenth Session

Rome, 8 - 12 May 2006

### Report on Investments 2005

#### Background

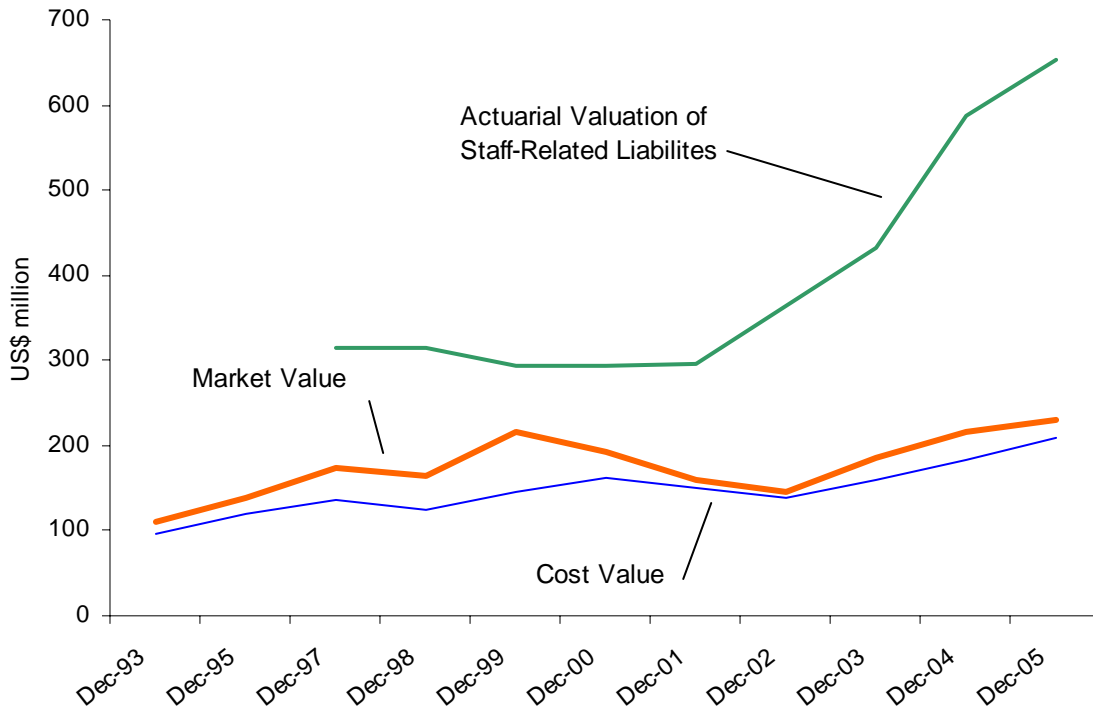
1. This document is submitted to the Finance Committee for information, in accordance with Financial Regulation IX, which provides, in part, as follows: "The Director-General may invest monies not needed for immediate requirements seeking, wherever practicable, the advice of an Advisory Committee on 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 the last 30 years.
3. The principal objective of the portfolio is to fund the Organization's share of staff-related liabilities:
  - Staff Compensation Plan;
  - Separation Payment Scheme;
  - After Service Medical Coverage (ASMC);
  - Termination of Service Payment Scheme.
4. Chart 1 shows the evolution of the long-term investment portfolio since 1993 for both market and cost values compared to the actuarial valuations of the staff-related liabilities (from 1997).

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**Chart 1**  
**Long-Term Investment Portfolio**  
**Market & Cost Value compared to Actuarial Valuation**



5. An actuarial valuation of these liabilities has been performed each biennium since 1996-97. The last valuation as of 31 December 2005, carried out by a specialized firm, placed the Organization's share of total staff-related liabilities at USD 654 million, an increase of USD 67 million from 31 December 2004 (USD 587 million). At 31 December 2003, the total of staff-related liabilities was USD 433 million. Several factors account for the most recent increase, including exchange rate movements, medical inflation and changes in the mortality assumptions.

6. The budgetary appropriation for 2004-05 included an assessment on Member Nations of USD 14.1 million representing additional funding towards the After Service Medical Coverage(ASMC). Monies are transferred into the investment portfolio based on the percentage of total Member contributions actually received. Following this methodology, USD 6.3 million was transferred to the long term portfolio on 30 June 2005 and an additional USD 5.15 million was transferred on 31 December 2005. The amounts transferred reflect the 83% of the assessed total which had been collected. As and when 2005 arrears are paid, the remaining 17% or USD 2.35 million of the ASMC assessment will be transferred to the investment portfolio.

7. The budgetary appropriation to provide additional funding towards ASMC for the biennium 2006-07 remains unchanged, at USD 14.1 million, and was assessed in a proportion of 60% to be paid in Euro and 40% in US Dollars. Nevertheless, as has been noted in the past, USD 14.1 million is not sufficient to match the estimated amortization as calculated by the actuary. The latest actuarial estimation of biennial amortization is USD 46,5 million. However,

the Organization has postponed consideration of an increase in ASMC contributions pending release of a UN report to the General Assembly on the issue of unfunded after service medical liabilities.<sup>1</sup> That report was issued in late 2005, and is discussed in FC 113/9 – Actuarial Valuation of the Staff-Related Liabilities.

8. The asset allocation of the portfolio provides for a 50/50 ratio between equity and bonds. The actual allocation at 31 December 2005 was as follows:

- 49.5 % Equity portfolio
- 50.5 % Fixed Income portfolio

9. Rebalancing of the funds occurs at month end only if a transfer between portfolios of more than USD 5 million is required to maintain the ratio.

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 portfolio:

- The JP Morgan Chase Global Broad Bond Index;
- A blend of 80% Barclays Euro Government Inflation-Linked Bond Index + 20 % Merrill Lynch EMU Direct Government Index (EG00).

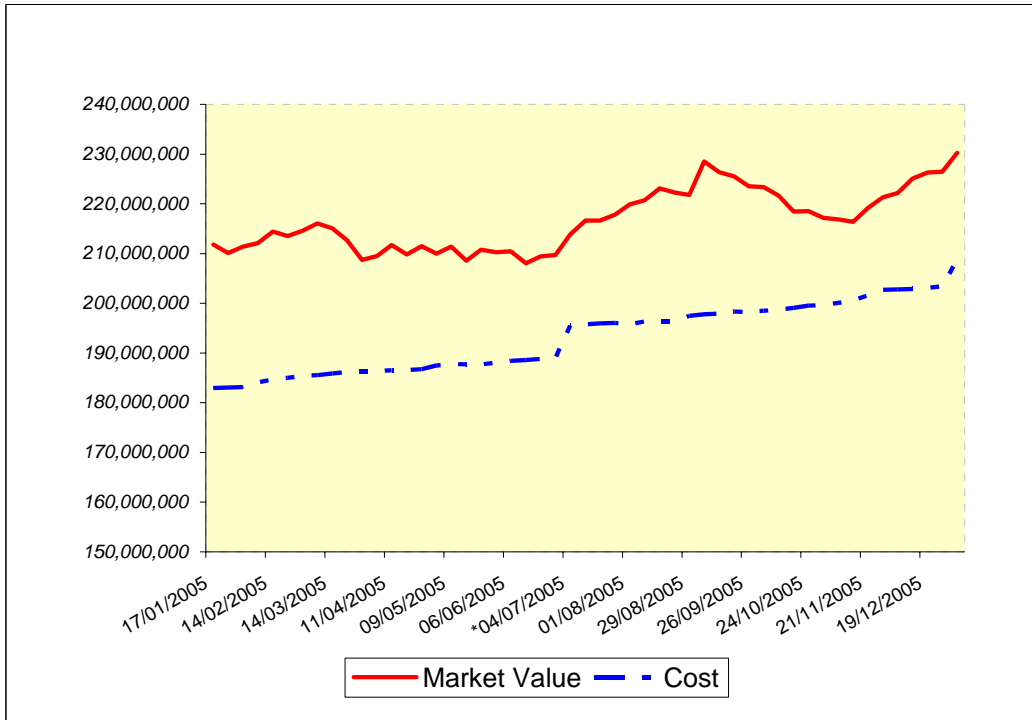
11. These benchmarks fairly represent the geographical and sector allocation of the portfolio and have been reviewed by the Investment Committee and by the Organization's investment advisor, the World Bank.

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<sup>1</sup> General Assembly Document A/60/450, 27 October 2005

12. Chart 2 illustrates the evolution of the long-term investment portfolio in 2005.

**Chart 2**  
**Long-Term Investment Portfolio**  
**Market & Cost Value 2005**



13. The balances (in USD) in the long-term portfolio amounted to:

	<u>At 31 December 2004</u>	<u>At 31 December 2005</u>
Market Value	216,362,540	230,272,079
Cost Value	182,445,776	208,746,092

(Market and cost value include accrued interest as reported by the custodian, Northern Trust)

14. Movements in the long-term portfolio during the year are summarized below:

<b>Cash Flow 2005</b>	<b>Amount in USD</b>
Market Value at 31/12/2004	216,362,540
Net variance of unrealized gain/loss	-12,390,777
Income dividends and interest	5,223,783
Realized gain/loss	10,767,853
Management, custodian & advisory fees	-980,561
ASMC funding	11,450,000
Accrued income change	-160,759
Market Value at 31/12/2005	230,272,079

(a) Yearly performance figures of the long-term portfolio are shown below. It should be noted that equity investments are reported in US Dollars, while fixed income investments are reported in Euro. Therefore, in order to arrive at an overall return, fixed income returns were converted to US Dollars. Consequently, the combined return reflects both the returns of the two funds and the currency effect of US Dollars/Euro movements over the year. This combined return in 2005 for the long term funds expressed in US Dollars was 1.47%, 0.78% over the benchmark.

<b>Performance in 2005</b>	
<b>Equities</b>	<b>10.91%</b>
<i>Benchmark</i>	10.03%
<b>Fixed Income</b>	<b>6.78%</b>
<i>Benchmark</i>	5.89%
<b>Overall Long Term Portfolio</b>	<b>1.47%</b>
<i>Benchmark</i>	0.69%

**Note:**

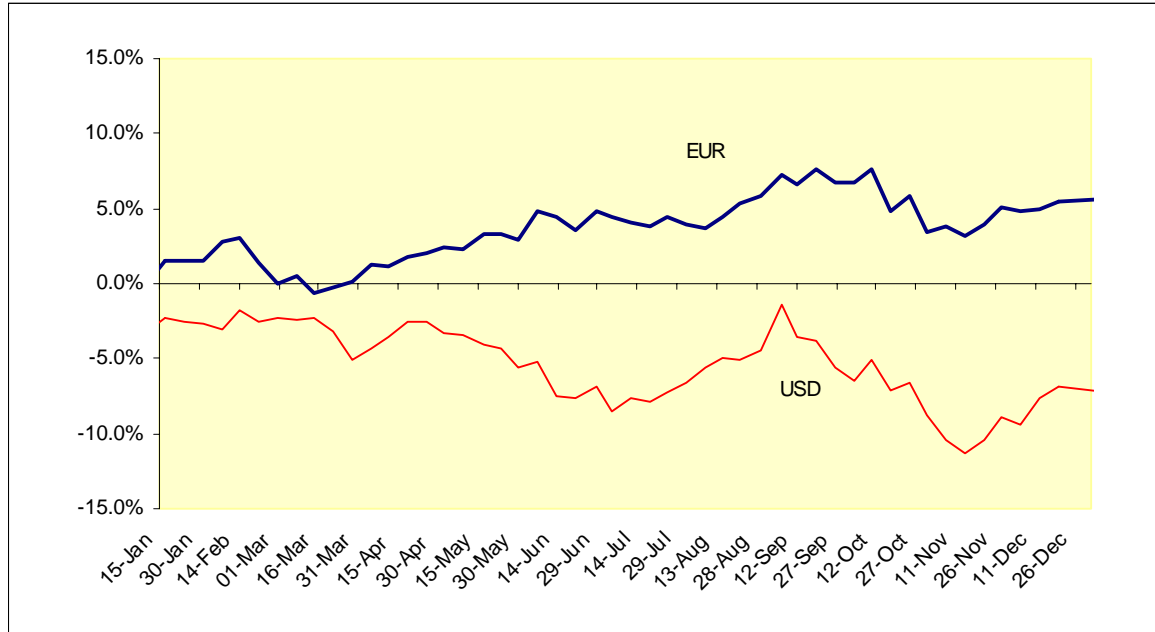
*Equity Returns based in USD*

*Fixed Income Returns based in EUR*

*Overall Returns based in USD*

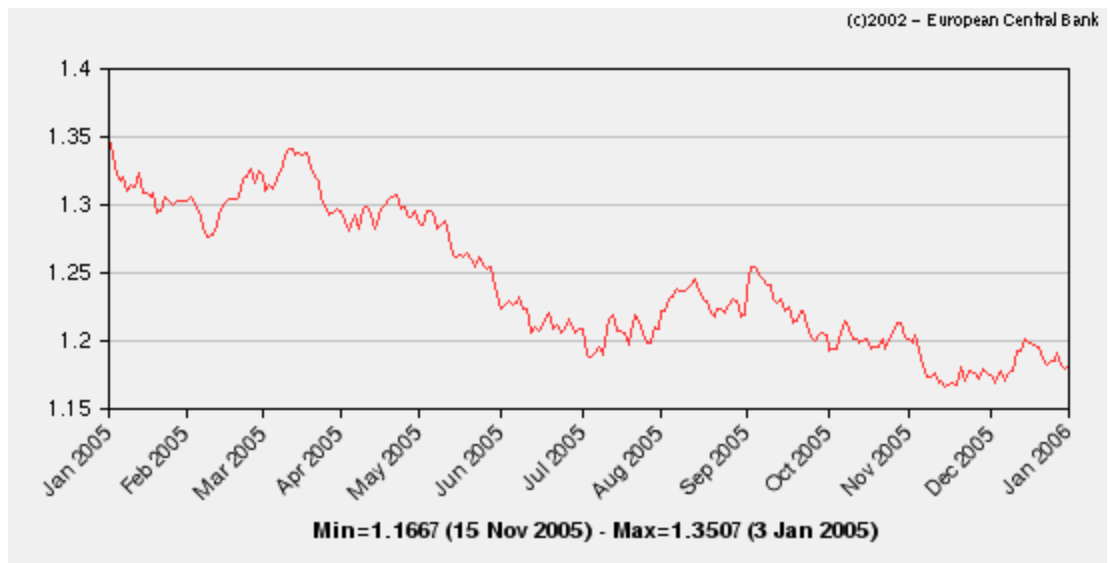
(b) Chart 3 illustrates the return of the long-term fixed income portfolio since 31 December 2004. The return is expressed in Euro. A return in US Dollar equivalents is also shown.

**Chart 3**  
**Long-Term Fixed Income Portfolio**  
**Return in USD & EUR from 31 December 2004 – 31 December 2005**



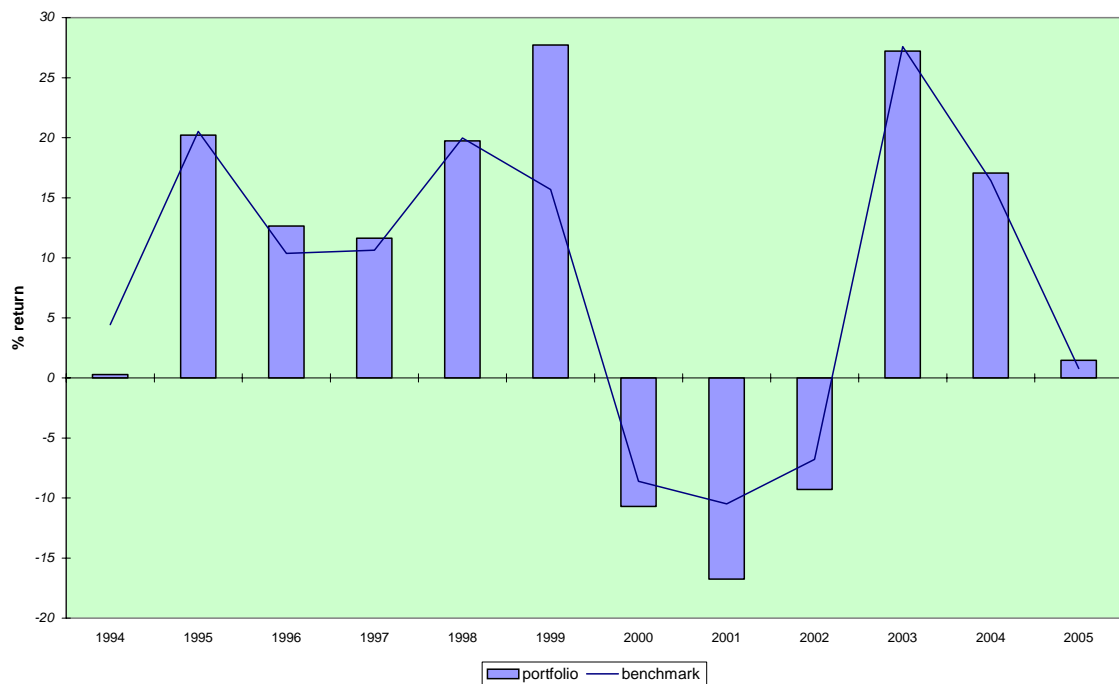
The significant difference between overall return expressed in US Dollars and the actual returns expressed in two currencies indicates the effect that currency exchange rates can have on the total return of the portfolio. Chart 4 illustrates the movements in the US Dollar/Euro rate over the course of 2005.

**Chart 4**  
**EUR/USD Foreign Exchange Rate, January 2005-January 2006**



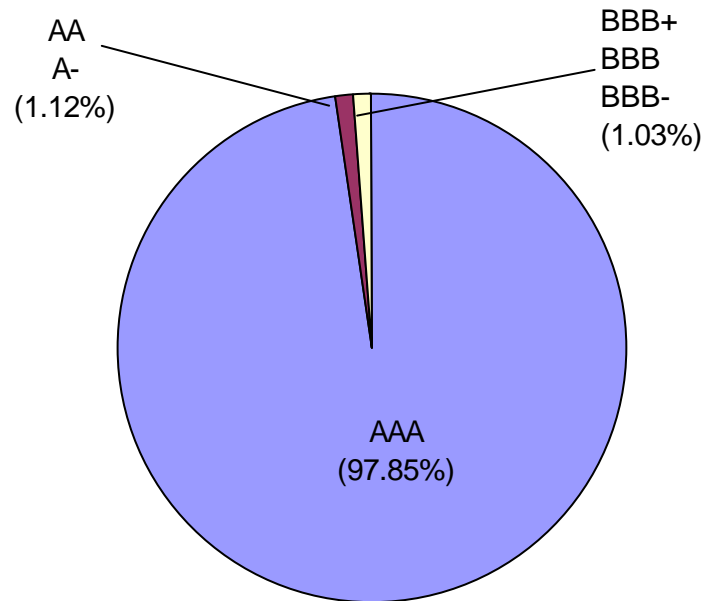
(c) Chart 5 shows the annual net performance of the long-term portfolio and the benchmark return since 1994, expressed in US Dollars.

**Chart 5**  
**Long-Term Portfolio**  
**Performance since 1994**



15. Chart 6 provides a breakdown of the assets in the long-term fixed income portfolio by credit quality.

**Chart 6**  
**Long-Term Fixed Income Portfolio**  
**Credit Quality Distribution of Assets at 31 December 2005**



16. The following table provides a breakdown of the assets in the overall long-term portfolio by country of issuance at 31 December 2005 in accordance with minimum acceptable credit risk of the portfolio guidelines.



**Table 1**  
**Long-Term Portfolio (Equity + Fixed Income)**  
**Investment Allocation by Country**

<u>Country</u>	<u>Amount</u>	<u>%</u>
Australia	5,017,286	2.18%
Canada	3,210,385	1.39%
Europe Other	17,515,982	7.61%
Finland	2,116,484	0.92%
France	91,862,805	39.89%
Germany	15,884,997	6.90%
Hong Kong	1,500,700	0.65%
Italy	2,253,030	0.98%
Japan	17,620,486	7.65%
Netherlands	2,982,276	1.30%
Norway	169,452	0.07%
Sweden	3,854,994	1.67%
Switzerland	592,662	0.26%
United Kingdom	7,415,807	3.22%
United States	58,274,734	25.31%
<b>Total Portfolio</b>	<b>230,272,079</b>	<b>100.00%</b>

17. Reports with details on the securities held and the composition of the long-term portfolio at 31 December 2005 will be available during the session.

### **Short-Term Investments**

18. Short-term investments consist largely of Trust Fund deposits held pending disbursements on project implementation and cash representing the reserves of Regular Programme and other assets. The investments are managed by three specialized asset managers in short-term investments; Western Asset Management, Wellington Management and the Northern Trust Company.

19. Since 2003, FAO has placed a portion of its short-term investment holdings with the Bank for International Settlements (BIS), Basel.

20. The market value (in USD) in the short-term portfolios amounted to:

	<b><u>At 31 December 2005</u></b>
Western Asset Management	74,362,296
Wellington Management	73,980,185
NT Government Select Fund	11,140,851
Bank for International Settlements	220,025,233
<b>Total</b>	<b>379,508,565</b>

21. Performance of the short-term portfolios in 2005:

	<b><u>1 Year</u></b>	<b><u>Since Inception</u></b>	<b><u>Date of Inception</u></b>
Western Asset Management	3.32%	2.54%	31/08/02
Wellington Management	3.20%	2.27%	31/08/02
<b>Total</b>	<b>3.26%</b>	<b>2.40%</b>	
<i>Benchmark*</i>	3.14%	1.92%	

*\*Benchmark = Merrill Lynch LIBOR 3 month Constant Maturity Index*

	<b><u>1 Year</u></b>	<b><u>Since Inception</u></b>	<b><u>Date of Inception</u></b>
NT Government Select Fund	3.09%	2.15%	31/12/03
Bank for International Settlements	3.13%	2.19%	31/12/03
<b>Total</b>	<b>3.11%</b>	<b>2.17%</b>	
<i>Benchmark*</i>	2.87%	1.93%	

*\*The benchmark for Northern Trust and BIS investments is a notional one. However, for comparison purposes the portfolios are measured against the iMoney.net Govt and Agencies Instl Index. The benchmark is a simple average of 177 funds that may invest in US Treasuries, US Agencies, Repos or Government Backed floating rate notes.*

22. Reports with details on the securities held and the composition of the Western and Wellington portfolios at 31 December 2005 and a description of the Northern Trust Government Select Fund will be available during the session.

### ACTIONS AND EVENTS 2005

23. Finance Division prepared and launched a call for tender for the Organization's corporate banking contract. The goal of this process is to rationalize the Organization's bank account structure and improve efficiency. Responses were received and preliminary evaluations completed in late 2005. A final decision is expected in early 2006, with implementation procedures to begin immediately.

24. A separate call for tender was launched by Finance Division for retail banking services in FAO Headquarters. This process has been conducted separately from the corporate tender as the services are for different purposes. As with the corporate tender, responses were received and evaluated in late 2005. A final decision is expected in early 2006, with implementation procedures to begin immediately.

25. A study was conducted on the possible engagement of a second equity investment manager. This action was approved by the Investment Committee and endorsed by the Advisory Committee on Investments. Using two equity managers will give the Organization added flexibility in a rapidly changing market. This process will begin in 2006.

26. The additional Finance/Investment Officer post in Treasury, approved by this Committee in 2003, was filled in September 2005.

27. The Advisory Committee on Investments has recommended that Finance Division use up-to-date market tools available to aid in proper investment monitoring and timely decision making. In that regard, a request for Bloomberg Information Services, the leading information provider for financial markets, has been submitted and the Finance Committee is requested to approve that the annual service fee of approximately US Dollars 23,000 be charged to investment income.