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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 Ninety-first Session

Rome, 16-20 May 2022

Report on Investments 2021

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

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EXECUTIVE SUMMARY

- 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.”
- The Organization manages two general pools of investments: Short-term Investments, which represent mainly unspent Trust Fund balances held pending disbursements on project implementation, but can include amounts of Regular Programme Assessed Contributions received, but not yet spent during the calendar year; and Long-term Investments, which represent the accumulated assets set aside over a period of decades to fund the Organization’s share of staff-related liabilities.
- Short-term Investments: This USD 2 060 million portfolio represents mainly unspent Trust Fund balances held pending disbursements on project implementation. Funds are diversified as to type and holdings and are invested with specialized asset managers and in deposits with the Bank for International Settlements (BIS). In 2021, given FAO’s prudent, low risk investment style and near zero interest rate environment in the United States, the total return was 0.06 percent, versus the benchmark of 0.04 percent, representing an excess return of 2 basis points.
- Long-term Investments: This USD 673 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 1 539.8 million at 31 December 2021. This compares with USD 1 499.5 million as per year-end 2020 representing an increase of USD 40.3 million. The liabilities are comprised of the Staff Compensation Plan, Separation Payment Scheme, After Service Medical Coverage (ASMC) and the Termination of Service Payment Scheme. Invested assets are 50 percent in Equities and 50 percent in Fixed Income securities. In 2021, the long-term portfolio yielded 5.11 percent, while its benchmark return was 5.07 percent, giving a slight overperformance of 4 basis points. The Euro lost 6.92 percent of its value versus the United States Dollar in 2021, which negatively impacted the return of the Euro portfolio when converted into United States Dollar.
- Investment Governance: The strategic asset allocations for Short-term and Long-term investments are designed in close collaboration with the Organization’s technical adviser, the World Bank. Asset and Liability Management (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 International Capital Markets Association (ICMA), the Bank for International Settlements (BIS), the Asian Development Bank (ADB), Cornell University and the International Centre for Pension Management (ICPM), 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 2021.**

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.”

2. The Organization manages two general pools of investments: Short-term Investments, which represent mainly unspent Trust Fund balances held pending disbursements on project implementation, but can include amounts of Regular Programme Assessed Contributions received, but not yet spent during the calendar year; and Long-term Investments, which represent the accumulated assets set aside over a period of decades to fund the Organization’s share of staff-related liabilities.

Short-term Investments

3. Short-term investments consist largely of Trust Fund deposits held pending disbursement on project implementation and any cash representing the reserves of Regular Programme and other assets. The investments are managed by asset managers specialized 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.

4. The market value (in United States Dollars) of the short-term portfolios at 31 December 2021 was USD 2 060 million versus USD 1 797 million at 31 December 2020.

5. The funds are invested with both external managers and deposits with the Bank for International Settlements in low risk investments, in accordance with short-term investment policy, the primary objective of which is to ensure the preservation of the value of resources.

6. Specific details on the mandates include:

a) Northern Trust: the Organization makes use of the Northern Trust Government Select Fund as a “liquidity fund”, investing end of day excess United States Dollars cash balances in a low risk mutual fund. The Government Select Fund consists mainly of securities issued or guaranteed as to principal and interest by the Government of the United States or by its agencies, instrumentalities or sponsored enterprises.

b) Bank for International Settlements: this is a portfolio consisting of a substantial level of staggered deposits. The Bank for International Settlements (BIS) offers the highest level of credit quality due to its structural integration with 50 central banks and monetary authorities.

c) Wellington Management: Investments are allowed in United States Dollars denominated government securities, government agencies, multilateral organization securities and high ranked bank and other financial institution obligations. The portfolio duration is three months.

d) World Bank: Investments are allowed in United States Dollars denominated government securities, government agencies, multilateral organization securities and high ranked bank and other financial institution obligations. The duration of this portfolio is six months.

e) Allspring Global Investments:¹ Investments are allowed in United States Dollars denominated government securities, government agencies, multilateral organization securities and high ranked bank and other financial institution obligations. The duration of this portfolio is twelve months

f) HSBC Euro Liquidity Fund: the HSBC Euro Liquidity fund serves a similar purpose to that of the Northern Trust Government Select Fund, but for temporary, very short-term excess bank balances in Euro. The Organization has limited cash balances in Euro, consequently, balances invested in Euro remained proportionally low throughout 2021.

7. The breakdown of invested short-term portfolio assets is as per the below table with a comparison with the previous year.

	<u>At 31 December 2020</u>	<u>At 31 December 2021</u>
NT Government Select Fund	16,825,365.10	24,557,338.26
Bank for International Settlements	750,848,674.89	890,440,629.88
Wellington AM	400,291,115.10	465,290,240.26
World Bank	324,502,527.32	384,338,692.21
Allspring Global Inv.	239,134,959.18	283,879,312.88
HSBC EUR Liquidity Fund*	65,376,180.86	11,975,329.06
Total	1,796,978,822.45	2,060,481,542.55

*This fund is denominated in EUR. The value for 2021 is EUR 10 550 264.90 converted at the 31/12/2021 UN Rate

8. The overall return on the Short-term Investment portfolio was 0.06 percent in 2021 versus the benchmark return of 0.04 percent, indicating an excess return of 2 basis points.

¹ Renaming of Wells Asset Fargo Asset management to Allspring Global Investors as of 1 November 2021, after the purchase of Wells Fargo's asset management business by two private equity firms, Reverence Capital Partners and GTCR LLC.

9. The level of interest rates in the United States strongly declined during the course of 2020 as a result of the emergency measures taken to weather the global pandemic, and remained close to zero in 2021, leading to exceptionally low portfolio returns. Individual manager returns are broken down by portfolio in the following table.

2021 Short Term Portfolio Return

Actively Managed

Manager	Allspring Global Inv.	0.02%
<i>Benchmark</i>	<i>ICE Bofa Merrill Lynch U.S. Treasury Notes & Bonds, 0-2 Yr Index</i>	<i>-0.13%</i>
Manager	World Bank	0.06%
<i>Benchmark</i>	<i>ICE Bofa Merrill Lynch U.S. Treasury Notes & Bonds, 0-1 Yr Index</i>	<i>0.06%</i>
Manager	Wellington Management	0.09%
<i>Benchmark</i>	<i>ICE Merrill Lynch 3 Month T-Bills</i>	<i>0.05%</i>

Deposits and Liquidity Funds

Manager	Northern Trust Liquidity Fund	0.03%
Institution	BIS	0.07%
<i>Benchmark</i>	<i>1 Month T-Bills</i>	<i>0.04%</i>

TOTAL ST PORTFOLIO

Portfolio Return (weighted average of all short term asset returns)	0.06%
Benchmark Return (1 Month T-Bills)	0.04%
Excess Return (portfolio return over benchmark)	0.02%

Risk Management of the Short-term Portfolio

10. The primary objectives of the Organization's short-term investment policy in order of importance are: security of principal, liquidity, rate of return. The Organization has further defined "low-risk" as the maximum risk allowed where the probability of any negative return over twelve months is statistically negligible. While there are many risk metrics the Organization follows when managing its short-term investments, the three key factors used to measure and manage investment risk are: duration, credit risk and diversification.

- a) Duration is a measure of a bond's sensitivity to changes in interest rate. The lower the duration, the lower the sensitivity and thus volatility in returns.

- b) Credit risk is the measure of a bond's likelihood to default on payment. The better the rating, the lower the likelihood of default. Using Standard and Poor's ratings, AAA is the highest rating possible (and the rate of current United States Government debt), BBB is defined as the lowest rating where security can still be considered "investment grade". D is the lowest rating and stands for default. The average Short-term portfolio rating is AA+.
- c) Diversification: within the United States Dollar denominated high quality fixed income, the portfolio is diversified across issuers, duration and credit rating.

11. The investment guidelines each asset manager has been given direct investments towards high quality investments, mainly in government agencies, multilateral organization securities and high ranked bank obligations. As a consequence, the average portfolio credit rating is AA+ as shown below.

12. The average duration of the short term portfolio is 0.31, or 3.66 months. This is in line with the short-term policy.

	Weight in Portfolio	Duration	Weighted Average duration	Average Credit Rating (S&P Scale)
NT Government Select Fund	1.20%	-	0.000	Aaa-mf*
Bank for International Settlements	43.47%	0.08	0.036	N/A
Wellington AM	22.71%	0.29	0.066	AA
World Bank	18.76%	0.50	0.094	AA+
Allspring Global Inv.	13.86%	0.79	0.109	AA
Total			0.31	AA+

* Moody's Money Market fund classification

Long-term Investments

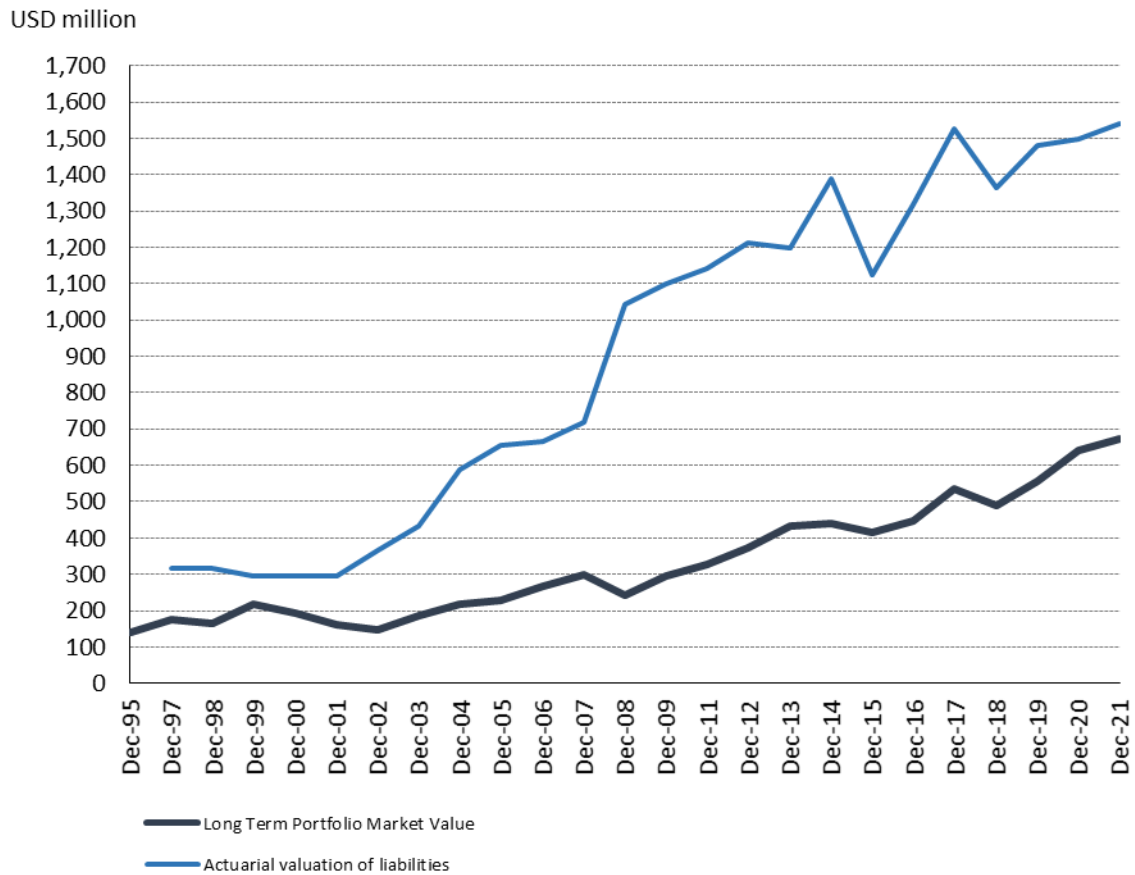
13. The long-term investment portfolio represents an accumulation in the value of securities and re-invested income over more than 30 years.

14. 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.

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

Organization staff-related liabilities and Long Term Assets



16. An actuarial valuation of these liabilities has been performed each biennium since 1996-97. The last valuation as of 31 December 2021, carried out by a specialized firm, placed the Organization’s share of total staff-related liabilities at USD 1 539.8 million, USD 40.3 million above the 2020 figure of USD 1 499.5 million.

17. The description of liabilities, the results of the actuarial valuation for 2021, the current funding status and options to address the funding gap are presented to the Finance Committee in document 191/4 - 2021 Actuarial Valuation of Staff Related Liabilities.

18. Of the total USD 1 539.8 million of all staff-related liabilities, USD 1 393.4 million represented 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 2016-2017. The same amounts were authorized in 2004-2005, 2006-2007, 2008-2009, 2010-2011, 2012-2013 and 2014-2015.

19. No ASMC Funding was included in the biennial budget for 2018-2019 or 2020-2021.

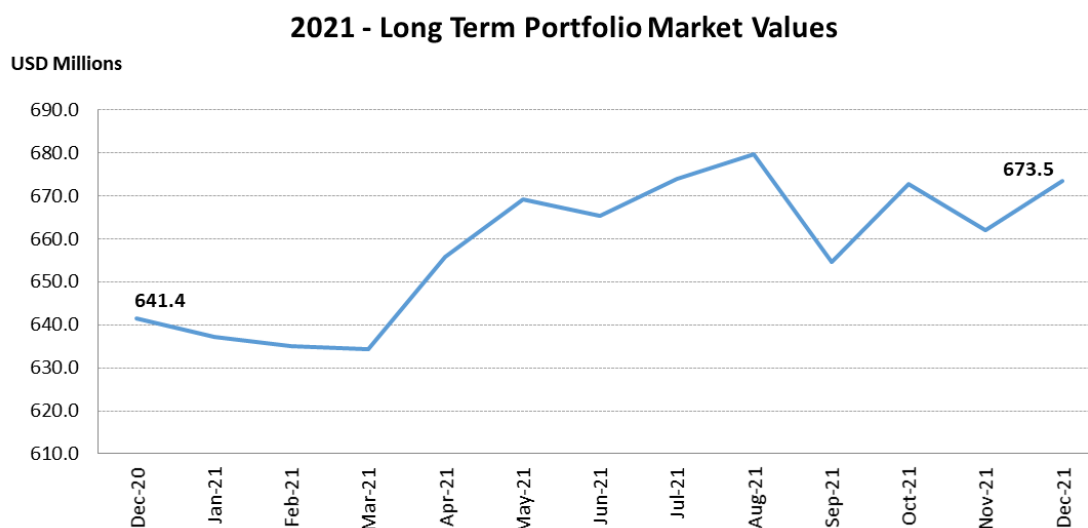
20. The market value of the asset allocation as at 31 December 2021 is shown below:

2021 Long Term Portfolio Asset Allocation

Manager	% Portfolio	Assets USD
Equity		
Developed Market Equity	38.09%	256,550,695.00
Emerging Market Equity	12.04%	81,113,793.00
Fixed Income		
LGT AM	19.93%	134,212,798.00
BNP AM	29.93%	201,596,041.00
TOTAL LT PORTFOLIO		673,473,327.00

values at 31/12/21

21. During the year, the long-term investments increased from USD 641 million to USD 673.5 million, the Chart below illustrates the evolution of the long-term investment portfolio in 2021.



22. The overall performance of the long-term investments for 2021, represented in United States Dollars was 5.11 percent versus the benchmark return of 5.07 percent, representing an over performance of 4 basis points. Detailed performance of each individual portfolio against its appropriate benchmark is shown in the table below.

2021 Long Term Portfolio Return

<u>Equity, USD Denominated</u>		USD RETURNS	EUR RETURNS
Global Equity Portfolios		15.85%	
Benchmark	75% MSCI World Index + 25% MSCI Emerging Markets Index	15.61%	
Excess Return		0.25%	
Manager	Northern Trust Transition Account - Developed Markets	22.92%	
Benchmark	MSCI World Index	22.35%	
Manager	Northern Trust Transition Account - Emerging Markets	-3.47%	
Benchmark	MSCI Emerging Markets Index	-2.22%	
<u>Fixed Income, EUR Denominated</u>			
Global Fixed Income Portfolios		-4.87%	2.34%
Benchmark	64% Barclays World Gov't Inflation Link'd + 16% ICE Merrill Lynch EMU Direct Gov't AAA Bond Index + 10% Barclays EU Credit Corp + 10% Barclays US Credit Corp, hedged to EUR	-4.95%	2.27%
Excess Return		0.08%	0.08%
Manager	LGT AM	-4.20%	3.07%
Benchmark	80% Barclays World Gov't Inflation Link'd + 20% ICE Merrill Lynch EMU Direct Gov't AAA Bond Index, hedged to EUR	-4.14%	3.14%
Manager	BNP AM	-5.33%	1.86%
Benchmark	55% Barclays World Gov't Inflation Link'd + 15% ICE Merrill Lynch EMU Direct Gov't AAA Bond Index + 15% Barclays EU Credit Corp + 15% Barclays US Credit Corp, hedged to EUR	-5.49%	1.68%
TOTAL LT PORTFOLIO USD RETURN		5.11%	
Portfolio Return (weighted average of equity and fixed income portfolios)		5.11%	
Benchmark Return (weighted average of equity and fixed income portfolio benchmarks)		5.07%	
Excess Return (portfolio return over benchmark)		0.04%	

EUR/USD Annual Performance

-6.92%

Bloomberg closing values at 31/12/21

23. Long-term investments' performance is measured by comparison with the following benchmarks:

- for the equity portfolio: 75 percent The Morgan Stanley Capital International Inc All Country Index + 25 percent The Morgan Stanley Capital International Inc Emerging Markets Index;

- for the fixed income portfolio:
 - for the mandate awarded to LGT, A blend of 80 percent Barclays World Government Inflation Linked Bonds Index + 20 percent and ICE Merrill Lynch EMU Direct Government AAA Bonds Index;
 - for the mandate awarded to BNP, A blend of 55 percent Barclays World Government Inflation Linked Bonds Index + 15 percent and ICE Merrill Lynch EMU Direct Government AAA Bonds Index + 15 percent Barclays EU Credit Corp + 15 percent Barclays US Credit Corp.

24. 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.

25. After the disinvestment of the legacy equity manager, in 2020, equity investments were transitioned to passive equity holdings in accounts held with the global custodian, Northern Trust pending the reinvestment with target equity managers.

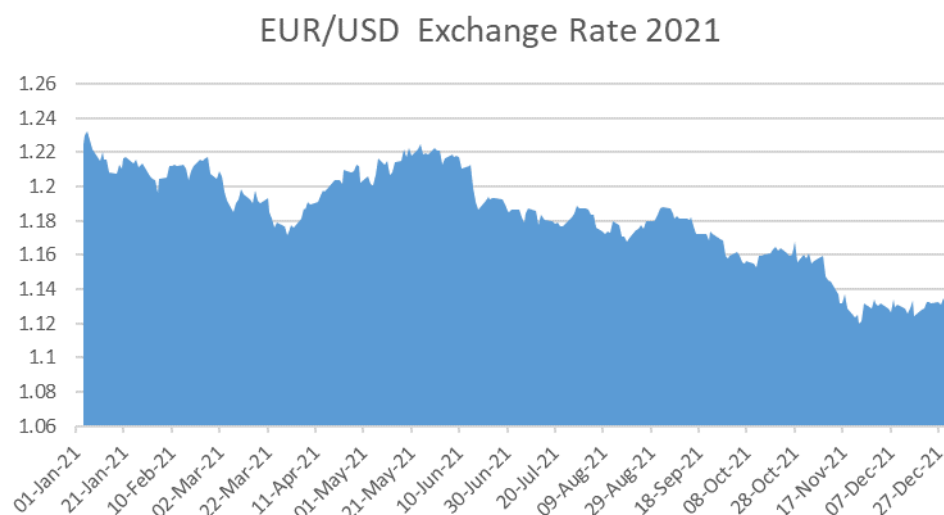
26. In 2021, FAO Treasury presented the selection report for the procurement of two new equity managers for these funds. The Investment Committee selected a collective investment vehicle for the active management of the emerging market equity investments, and an asset manager to passively manage FAO's developed markets allocation. FAO's Legal Division has been assisting Treasury in the review and negotiation of investment agreements to ensure they correctly reflect FAO's privileges and immunities, or alternatively that appropriate arrangements be sought to safeguard FAO's assets.

27. In late 2020, following an asset and liability review by an external party, and confirmation of the results by the Investment Committee, the Director-General approved a modification of the long-term asset allocation, increasing return seeking assets to 60 percent of the portfolio with the introduction of a 10 percent allocation to real estate, with a parallel reduction in fixed income:

LONG TERM PORTFOLIO INVESTMENTS		
ASSET CLASS	BENCHMARK	WEIGHT
Developed Int'l Equity	MSCI World	37.50%
Emerging Mkt Equity	MSCI EM	12.50%
TOTAL GLOBAL EQUITIES		50%
Real Estate		10.00%
TOTAL RETURN SEEKING ASSETS		60%
Inflation Linked Bonds	Barclays World Govt. Inflation Linked	25.60%
Government Bonds	ICE Merrill Lynch EMU Direct Govt AAA Bond Index	6.40%
Investment Grade Credit	Barclays EU Credit Corp & Barclays US Credit Corp	8.00%
	100% Hedged to Euro	
TOTAL GLOBAL FIXED INCOME		40%
TOTAL RISK REDUCING ASSETS		40%

28. The Investment Committee has decided to identify an external consultant to assist FAO in its analysis of the real estate market and to evaluate appropriate investment opportunities in this asset class. FAO Treasury is preparing the tender documentation for this process with the guidance and assistance of the World Bank, FAO's technical advisor, and the administrative assistance of FAO's Procurement Service.

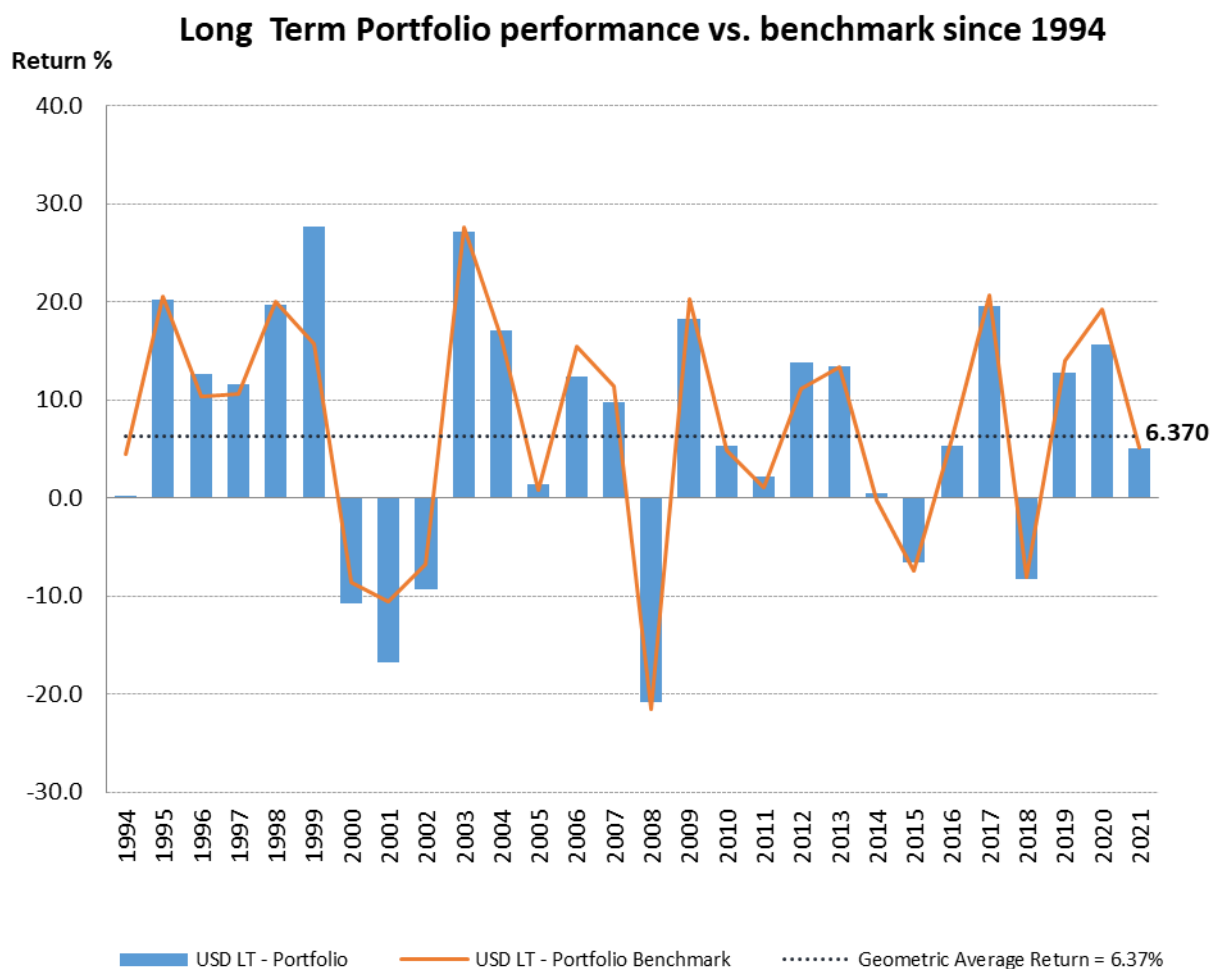
29. The fixed income portfolios are denominated in Euro. This is because the underlying ASMC liability has a substantial Euro component and it is important to match, to the extent possible, assets and liabilities in long-term portfolios. The value of the Euro declined in 2021, closing the year at 1.137, i.e. 6.92 percent lower compared with the start of the year. This impacts FAO's Euro denominated holdings in a negative way, decreasing the portfolio performance when expressed in United States Dollars. This is compensated by an opposite movement in liabilities based in Euro, but the moves are not parallel as liabilities exceed assets by a significant margin.



30. While annual performance versus the benchmark is an important measurement, such investments have a much longer time horizon to achieve their objectives. The Organization closely monitors investment performance over several years and several market cycles to filter out the short-term volatility and understand the longer-term trends of the chosen investment styles and objectives. In the market returns, shown below, it will be noted that the current mandates have returned 4.84 percent since inception (based in United States Dollars), in line with the consolidated long-term benchmark.

2021 Long Term Portfolio Return							
	Market Value USD, 000s	Weight in Portfolio	2021 USD RETURNS	2021 EUR RETURNS	3Y USD RETURNS	5Y USD RETURNS	Since Inception RETURNS
Global Equity Portfolios	337,664.49	50.14%	15.85%		17.63%	12.37%	10.31%
<i>Benchmark</i>			15.61%		20.85%	14.80%	10.43%
Northern Trust Transition Account - Developed Markets	256,550.70	38.09%	22.92%				43.73%
<i>Benchmark</i>			22.35%				43.55%
Northern Trust Transition Account - Emerging Markets	81,113.79	12.04%	-3.47%				27.82%
<i>Benchmark</i>			-2.22%				28.48%
Global Fixed Income Portfolios	335,808.84	49.86%	-4.87%	2.34%	4.89%	4.53%	2.23%
<i>Benchmark</i>			-4.95%	2.27%	4.73%	4.34%	
LGT AM	134,212.80	19.93%	-4.20%	3.07%	4.97%	4.58%	1.73%
<i>Benchmark</i>			-4.14%	3.14%	4.92%	4.42%	
BNP AM	201,596.04	29.93%	-5.33%	1.86%	4.83%	4.50%	1.87%
<i>Benchmark</i>			-5.49%	1.68%	4.61%	4.29%	
TOTAL LT PORTFOLIO USD RETURN	673,473.33		5.11%		11.11%	8.50%	4.84%
Consolidated LT Benchmark			5.07%		12.56%	9.60%	4.83%

31. The table below shows the annual returns of all long-term invested assets (current and prior mandates) since 1994 compared with their benchmarks. As is evident, returns have closely mirrored their benchmarks during the past twenty-seven years. The average investment return, expressed as the geometrical mean, over this period is 6.37 percent.



Risk Management of the Long-term Portfolio

32. Like the short-term investments, the long-term investments have a rigorous risk management structure in place. To complement risk reporting provided by external managers, the Organization implemented a risk management service with its custodial bank, Northern Trust that provides independent monthly reporting on the risk factors affecting the portfolio. This detailed report allows CSF to analyse:

- a. Sources of risk: asset allocation, security selection, over/underweight sectors/regions, duration, currency, etc.
- b. Magnitude of risk: expressed through the value at risk (VAR) at different confidence levels.
- c. Scenario testing: the portfolios are stress tested to see how they would react under various real past scenarios (Subprime crisis, Systemic financial crisis, Coronavirus outbreak, etc.).
- d. The Organization will continue to develop its risk management structure to ensure that funds are managed most closely aligned to its liabilities. Monthly reports to the Investment

Committee will highlight changes in any risk factors. In addition, the Treasury Unit carries out quarterly calls to investment managers and annual compliance visits.

33. Furthermore, FAO will be strengthening the Treasury function with the addition of a P3 Investment Risk Finance Officer focusing on the risk monitoring and oversight of the external investment managers and assisting in the timely implementation of investment governance decisions. The creation of this post was supported by both the Advisory Committee on Investments and the Investment Committee and will be funded by investment income.

Investment Expenses

34. The costs associated with management of the short- and long-term investments are detailed below. The most significant fees are those associated with the external management of the portfolios. These fees are calculated as a percentage of assets under management, changing as the value of the underlying assets change. A regular review of fees to ensure alignment with market standards is carried out by Treasury.

35. The overall expense ratio for the management and oversight of the investments in 2021 was 0.088 percent, lower than the ratio in 2020 of 0.11, 2019 of 0.125 and 2018 of 0.142 percent. The ratio improved following an increase of USD 361 million in assets under management and the reduction in costs by over USD 210 000, owing to the reduction in travel expenditure and in the cost of management for the equity transition accounts compared to the previous actively managed account.

Investment Service Provided	2021 Expenditures in USD
Management, custodial and advisory fees	1,680,514.93
Treasury staffing (three professional posts)	639,212.00
Advisory Committee on Investments Meetings, Investor compliance and Training Costs	6,500.00
Bloomberg Terminals	70,565.40
Total Expenses	2,396,792.33
Total Assets at 31/12/2021	2,733,954,869.72
Expense Ratio 2021	0.088%

Investment Governance at FAO

36. In 2020, the terms of reference of the Investment Committee were reviewed to better define the selection process of financial service providers and strengthen governance by suggesting the inclusion of two additional internal members to the committee. The Investment Committee is now chaired by FAO's Deputy Director-General with oversight over the Finance Division and is composed of other six members: the Deputy Director-General with secondary oversight over the Finance Division, the Chief Economist, FAO's Legal Counsel, Director of Finance, Director of the Office of Strategic Planning and Resources Management and Director of the FAO Investment Centre. The treasurers of IFAD and WFP and the Office of the Inspector General also participate as observers.

37. The Organization also seeks investment advice from the Advisory Committee on Investments (ACI) in accordance with Financial Regulation 9.1. The ACI is an external committee composed of five high-level experts from organizations such as International Capital Markets Association (ICMA), the Bank for International Settlements (BIS), the Asian Development Bank (ADB), Cornell University and the International Centre for Pension Management (ICPM).

38. 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 tender with a final selection process carried out with the assistance of the World Bank. Two tenders have recently taken place to select the new equity investment managers and investment will shortly take place.

39. The global custodial, Northern Trust, is mandated to provide daily compliance monitoring of managed accounts. The Treasury Unit carries out annual compliance reviews with all external asset managers, quarterly performance calls, and provides fortnightly reports to the Investment Committee on the status of investments.

40. 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.