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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-second Session
Rome, 12 – 16 April 2010
Report on Investments 2009

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EXECUTIVE SUMMARY

- Long-Term Investments: This USD 295 million portfolio represents the accumulated assets set aside over a period of decades to fund the Organization's share of staff-related liabilities, which amount to USD 1.1 billion at 31 December 2009. 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 2009, global financial markets began to recover from the extreme volatility of the previous year. The long term portfolio returned 18.27% versus 20.32% for the benchmark.

- Short-Term Investments: This USD 933 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 conservative, low risk investment style and the near zero interest rate environment in 2009 kept returns very low, with a total return of 0.44% for the year. However, this exceeded the benchmark return of 0.21%.

- Investment Governance: The asset allocation of Short Term investments is designed in close collaboration with the Organization's technical advisor, the World Bank. Every few years, a detailed Asset and Liability study (ALM) is done by an external advisor on long-term assets. The last was completed at end December 2008. The asset allocation recommendations are reviewed and commented on by the internal Investment Committee and the external Advisory Committee on Investments with final authorization on implementation taken by the Director General.

- Action and Events 2009, Outlook 2010

a) To help deal with significant increases in liquidity required for FAO operations in Decentralized Offices, Finance Division implemented in Rome the electronic banking platforms of 4 key regional banking partners as part of the project to streamline and improve field office liquidity management. A roll out of these electronic banking platforms to key field offices is taking place in 2010. Local implementation will be paced and prudently structured, taking into consideration both needs and appropriate administrative support in each office.

b) The Organization was at the forefront during the course of 2009 in the drive for enhanced partnerships and collaboration amongst Treasury functions across the UN Common System and others. Under the auspices of the HLCM, the Organization hosted a meeting of UN Treasurers in May 2009 and participated in the set-up of a website to improve knowledge sharing.

c) The Organization participated in a joint Request for Proposal for custodial investment services with the Treasury Units of IFAD and WFP. The RFP was conducted through the services of IFAD procurement. The synergies from this collaborative effort allowed for better sharing of ideas as well as a more efficient use of procurement and administrative services in each agency.

d) The Legacy Portfolio, which was set aside in the course of the 2008 financial markets crisis and consisted of assets that no longer met the Organization's investment criteria, was successfully liquidated by 31 December 2009 at values above those at year end 2008. In that regard, the Organization suffered no net losses on these assets during 2009.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is requested to take note of FAO's positive returns on the Short- and Long-term portfolios within the context of improved financial market conditions; the prudent investment approach and governance arrangements for all investment activity; and FAO's close collaboration with WFP, IFAD and other UN Treasuries.

Draft Advice

- **The Finance Committee notes and commends the prudent management by FAO of its short-term portfolio and the resourceful approach to long-term investments; and welcomes the positive returns during 2009, as well as the efforts by the Organization to increase collaboration with other UN Common System treasuries.**

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.

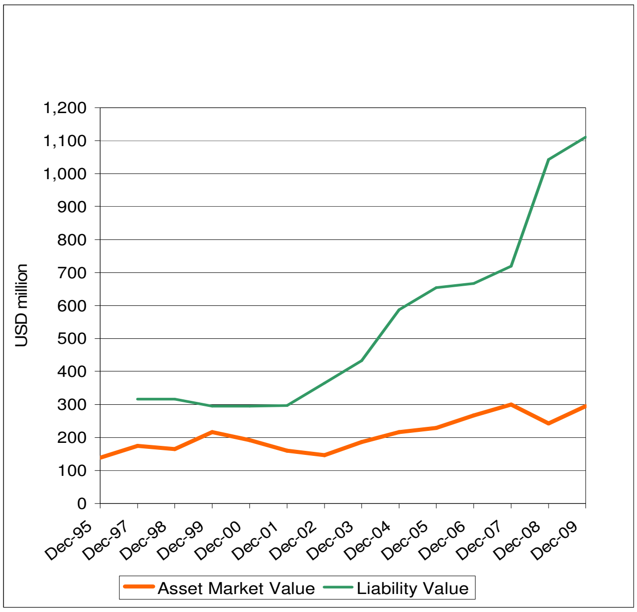
3. The principal objective of the portfolio is to fund the Organization’s share of staff-related liabilities:

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 long-term investment portfolio since 1993 for both market and cost values compared to the actuarial valuations of the staff-related liabilities (from 1997).

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 2009, carried out by a specialized firm, placed the Organization's share of total staff-related liabilities at USD 1.1 billion, only slightly above the figure for 2008 of USD 1.04 billion. Staff-related liabilities are under review by the Finance Committee in document FC 132/3, *2009 Actuarial Valuation of Staff Related Liabilities*.

6. The latest actuarial estimation of all staff-related liabilities included USD 934.5 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 2010-2011. The same amounts were authorized in 2004-2005, 2006-2007 and 2008-2009.

7. The ASMC Funding for 2008-2009 was assessed in both EUR (60%) and USD (40%) 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 5.9 million and EUR 1.8 million were transferred to the long term portfolio in 2009, representing approximately 95% of the annual assessed total.

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 2009 was as follows:

	Invested	**% Total**	**Investment Manager**
Equity	150,211,158	51.0%	Axa Rosenberg + PanAgora
Fixed Income	144,498,838	49.0%	Western
Total	294,709,996	100.0%	

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.

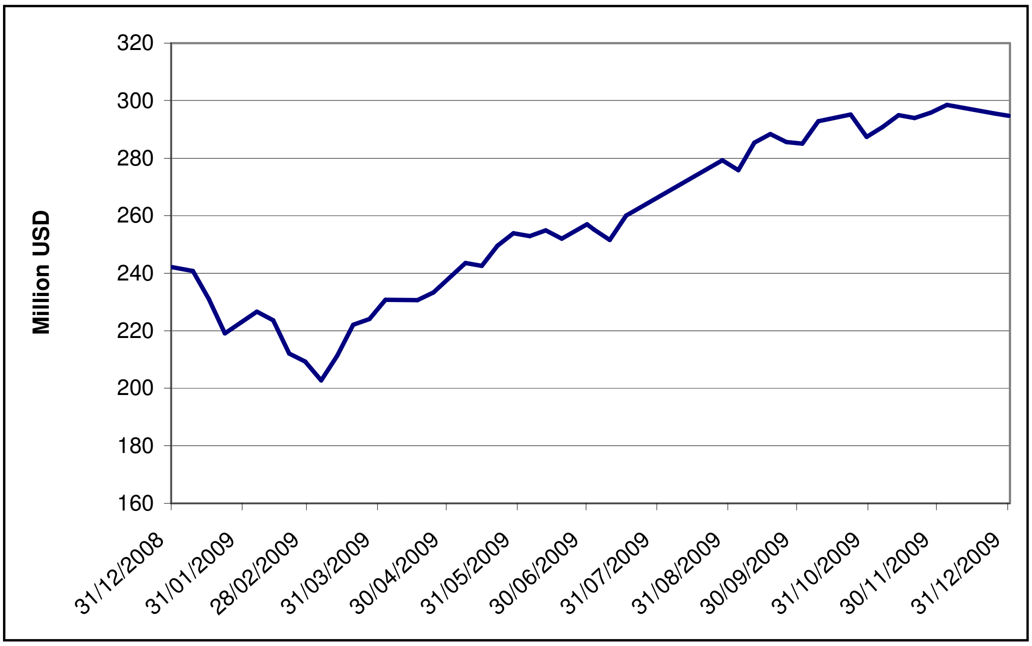
10. The measurement of performance is by comparison to the following benchmarks:

- For the equity portfolio: The Morgan Stanley Capital International Inc All Country Index
- For the fixed income portfolio: 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 technical advisor, the World Bank.

12. The Chart below illustrates the evolution of the long-term investment portfolio in 2009.

Long-Term Investment Portfolio, Market Value 2009



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 2009.

Cash Flow 2009	Amount in USD
Market Value at 31/12/2008	**242,208,150.00**
Net variance of unrealized gain/loss	53,912,634.00
Realized gain/loss	-15,995,979.00
Income, dividends and interest	7,066,239.00
Management, custodial and advisory fees	-1,241,005.00
ASMC Funding	8,628,670.00
Accrued Income Change	131,287.00
Market Value at 31/12/2009	**294,709,996**

a) It should be noted that equity investments are reported in USD, while fixed income investments are reported in EUR. Therefore, in order to arrive at 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 2009 for the long term funds expressed in USD was 18.27% versus 20.32% for the benchmark.

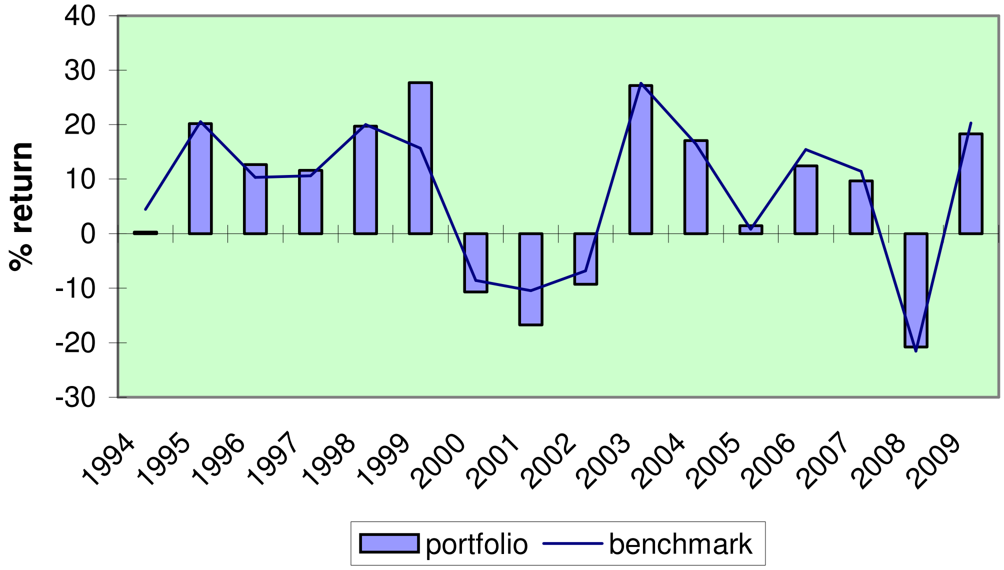
2009 Performance	
Equity Fund	**28.46%**
Benchmark	*30.39%*
Fixed Income Fund	**5.26%**
Benchmark	*7.38%*
Total Portfolio	**18.27%**
Benchmark	*20.32%*

Note:
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 1994-2009 are shown below.

Long-Term Portfolio

Performance since 1994



c) The below chart illustrates the movements in the USD/EUR rate over the course of 2009. USD/EUR volatility was less than in previous years. However, movement in the value of the EUR has a direct effect on USD measured returns.

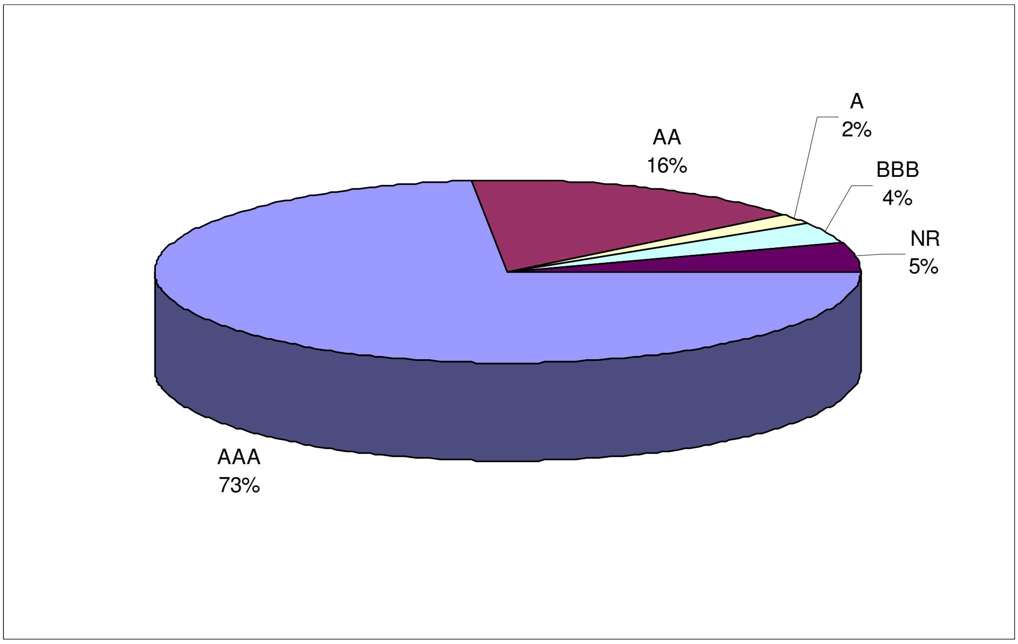
EUR/USD Foreign Exchange Rate, January 2009-December 2009

(Source Bloomberg)

14. The below chart provides a breakdown of the assets in the long-term fixed income portfolio by credit quality. During the year, the percentage of assets in AAA rated securities increased from 64% to 73% as the Organization sought to reduce the risk profile of the portfolio given the continued turmoil in financial markets.

Long-Term Fixed Income Portfolio

Credit Quality Distribution of Assets at 31 December 2009



15. Reports with details on the securities held and the composition of the long-term portfolio at 31 December 2009 will be available during the session.

Short-Term Investments

16. 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 specialised asset managers in short-term investments: Wellington Management, the Northern Trust Company, HSBC or invested in deposits with the Bank for International Settlements.

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

	At 31 December 2009
Wellington Management	181,196,744
NT Government Select Fund	46,342,846
HSBC USD Liquidity Fund	44,618
HSBC EUR Liquidity Fund	15,487,225
Bank for International Settlements	690,003,033
Total	**933,074,466**

18. During 2009, the Organization continued the process of reducing the risk exposure of its short-term assets in light of the ongoing volatility and insecurity of financial markets.

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) Wellington Management Legacy Portfolio: the Finance Committee was informed at its 126th Session of the impact of the financial crisis and the action taken to set up this separate portfolio collating higher risk and volatile securities. During the course of 2009, the portfolio was successfully liquidated with total values greater than at 31 December 2008. As a result of this success and the concomitant move to a more conservative, risk-free overall portfolio, the Organization was able to resume interest distribution to trust fund balances during the 2009 closing exercise (see para. 22 below).

c) Northern Trust: Holdings in the Northern Trust Government Select Fund were substantially reduced from USD 180 million to USD 46 million after the expiration on 18th September 2009 of the US Treasury Guarantee Programme for Money Market Funds.

d) HSBC USD Liquidity Fund: The Organization continued to maintain very low holdings in this liquidity fund due to its exposure to securities in banks and the financial services industry.

e) 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 2009.

f) BIS: Invested deposits were increased at the BIS in view of its outstanding credit quality arising from its structural integration with 50 central banks and monetary authorities.

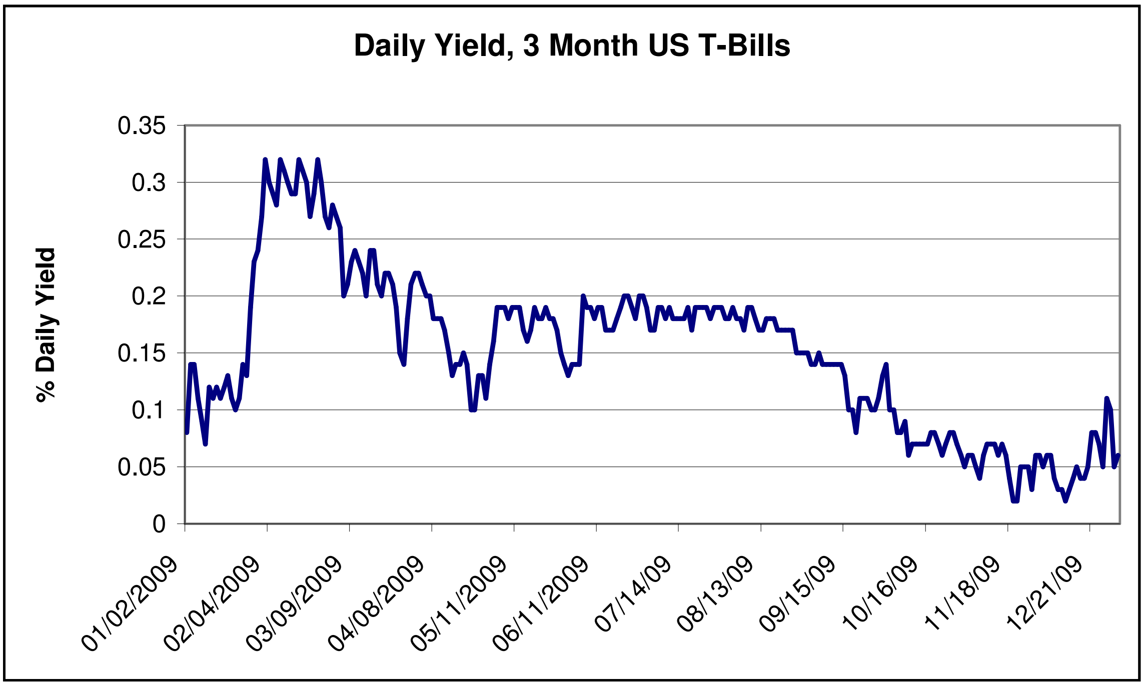
19. The end result of such risk mitigating measures implies that approximately 97.5 % of FAO's investment portfolio is currently secured in risk-free or very low risk instruments. The table below outlines the proportional distributions by asset-type as per 31 December 2009:

Type of Asset	Portfolio USD (millions)	Distribution (%)	Risk Profile
United States Treasury Bills	63.17	6.77	none
Funds fully guaranteed by US Government	18.04	1.93	none
Bank for International Settlements	690.00	73.95	negligible
US agencies	138.65	14.86	very low
Others (Cash, Bank deposits, CD's)	23.22	2.49	low
Total	**933.08**	**100.00**	

20. The performance of short-term portfolios during the course of 2009 was dominated by the extreme low interest environment for very low risk USD investments. The overall performance was 0.44% for the year.

Fund Manager	Return, net of fees
Wellington Management	1.02%
Wellington Legacy	5.82%
NT Government Select Fund	0.22%
HSBC USD Liquidity Fund	0.29%
HSBC EUR Liquidity Fund	0.75%
Bank for International Settlements (BIS)	0.19%
Overall Performanced USD (weighted Averaç	0.44%
Benchmark	
Merrill Lynch 3 Month T-Bills (USD)	0.21%

The benchmark returned 0.21% for this same period. As the chart below shows, rates declined throughout the year.



Source: US Treasury

21. In light of turmoil in global financial markets prevailing in 2008 and 2009, the Organization recognized the inadequacy of the LIBOR based benchmark *vis-à-vis* FAO's approach to risk relating to its Short Term portfolio. Following guidance received from the Investment Committee, as well as advice from the external Advisory Committee on Investments substantiated by an *ad hoc* study by the World Bank on short term benchmarks, a new benchmark of 3-month duration United States Treasury Bills was introduced in 2009 on the basis that it satisfied the requisite characteristics of transparency, representativeness, and replicability, and was consistent with the expression of risk appetite of the Organization.

22. As reported to the Finance Committee in May 2009, the Organization temporarily suspended distribution of interest income earned on unspent trust fund balances in the last quarter of 2008. This was due to the low interest rates on short-term investments and the risk embedded in the legacy portfolio. However, following successful liquidation of the legacy portfolio (described in paragraph 18 above), the Organization resumed interest distribution on trust fund

balances at the end of 2009, the precise modality of which remains contingent on prevailing market conditions, supported by a formal review of interest distribution policy in 2010.

Investment Governance at FAO

23. 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. A last study was undertaken and finalized in December 2008.

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

25. 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).

26. 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 European Investment Bank. The World Bank also serves as the Organization’s technical investment advisor.

27. 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.

28. 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 Finance Division annually.

29. Finally, a detailed report on FAO's investments is provided annually to the Finance Committee. This report is available on FAO’s website.

Actions and Events 2009, Outlook 2010

30. The investment expense ratio continued to fall in 2009, dropping from 0.17% to 0.16%. The figure in 2008 was 0.21%.

Investment Service Provided	2009 Expenditures in USD
Management, custodial and advisory fees	1,554,494
Treasury staffing (two professional posts)	407,412
Bloomberg Terminal	21,438
Advisory Committee on Investments Meetings	13,448
Annual Investor Compliance Meetings	16,804
Total Expenses	**2,013,596**
Total Invested Assets	1,227,789,021
Total Expense Ratio	**0.16%**

31. The Organization completed the review and testing of the electronic banking software of its four key regional banking partners necessary as part of the rationalization and streamlining of field office banking. In the face of significantly greater liquidity needs in Decentralized Offices, Finance Division is working to consolidate, where possible, field banking with these partners in order to reduce banking risk, tighten liquidity control and streamline banking management. An important part of this effort is to enable offices to use electronic banking in lieu of cheques and cash. Electronic banking capabilities will be rolled out to select field offices in 2010. Based on experiences in these pilot offices, more offices will be enabled later in the year and into 2011.

32. The Organization is reviewing its very conservative holdings in short-term investments. As markets return to more normalcy, the Organization plans to add another investment mandate to better diversify holdings. This will be considered at upcoming meetings of the Investment Committee and Advisory Committee on Investments in 2010.

33. During the course of 2009, the Organization played a key role in establishing concrete and sustainable partnership and collaboration amongst Treasuries within the UN Common System and other multi-lateral agencies. In May 2009, FAO hosted a global meeting of Treasury officials under the auspices of the HLCM Common Treasury Task Force aimed at enhancing such collaboration. As a result of the meeting, a shared internet website has been successfully established to enable knowledge sharing, and further meetings are planned for the future. This is in addition to FAO's joint RFP with IFAD and the WFP for Global Custodial Services. The RFP was conducted through the services of IFAD procurement. The synergies from this collaborative effort allowed for better sharing of ideas as well as a more efficient use of procurement and administrative services in each agency.

34. The Legacy Portfolio (see paragraph 18b), which arose in the course of the 2008 financial markets crisis and consisted of assets that no longer met the Organization's investment criteria, was successfully liquidated by 31 December 2009 at values above those at year end 2008. As a result, the Organization suffered no net losses on these assets during 2009.