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para la
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FINANCE COMMITTEE

Hundred and Forty-third Session

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Report on Investments 2011

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EXECUTIVE SUMMARY

- Long-Term Investments: This USD 328 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 1.144 billion at 31 December 2011. 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 2011 the long term portfolio returned 2.21 % versus 1.02 % for the benchmark.
- Short-Term Investments: This USD 865 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, conservative, low risk investment style and the continuing near zero interest rate environment in 2011 kept returns very low, with a total return of 0.15% for the year. However, this exceeded the benchmark return of 0.05%.
- Investment Governance: The investment policy 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.

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 2011, the positive performance indicators for the year, the Organization's investment policy and governance arrangements.**

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

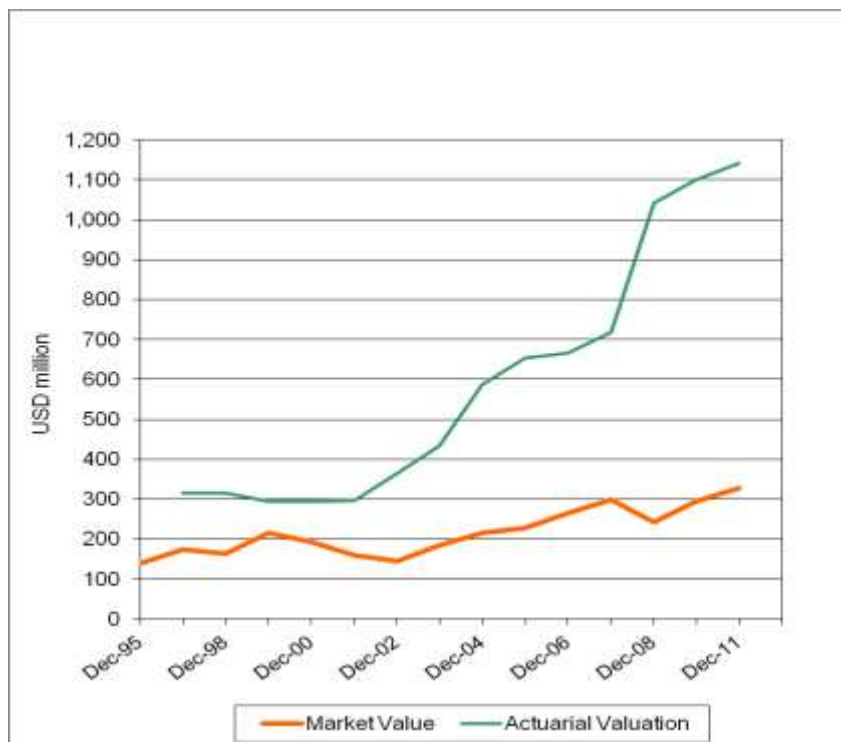
2. The long-term investment portfolio represents an accumulation in the value of securities and re-invested income over more than 30 years.

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 1995 for market values compared to the actuarial valuations of the staff-related liabilities (from 1997).

**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 2011, carried out by a specialized firm, placed the Organization's share of total staff-related liabilities at USD 1.144 billion, only slightly above the figure for 2010 of USD 1.141 billion. Staff-related liabilities are under review by the Finance Committee in document FC 143/4 - *2011 Actuarial Valuation of Staff Related Liabilities*.

6. The latest actuarial estimation of all staff-related liabilities included USD 979 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 2010-2011 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 2.62 million and EUR 2.576 million were transferred to the long term portfolio in 2011.

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 2011 was as follows:

	Invested (USD)	% Total	Investment Manager
Equity	171,620,898	52.3	PanAgora
Fixed Income	156,588,184	47.7	Western
Total	328,209,082	100	

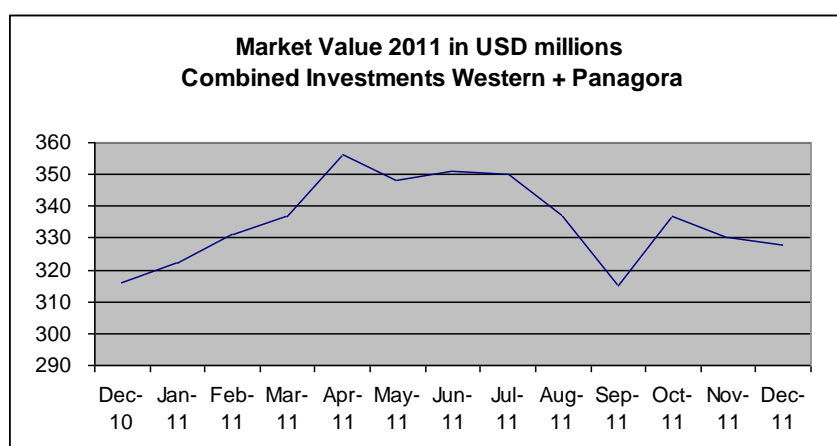
9. Rebalancing of the funds occurs at month end if the ratio is out of balance by more than 5%. When possible, active rebalancing by FAO Treasury using ASMC contributions is carried out.

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 World Inflation Linked Bonds Index + 20 % and Merrill Lynch Government AAA Bonds

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 2011.

Chart 2 - Long-Term Investment Portfolio, Market Value 2011

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 2011.

Cash Flow 2011	Amount in USD
Market Value at 31/12/2010	316,268,177.17
Net variance of unrealized gain/loss	-18,161,820.75
Realized gain/loss	17,060,515.31
Income, dividends and interest	8,562,236.72
Management, custodial and advisory fees	-1,486,791.62
ASMC Funding	6,385,375.76
Accrued Income Change	-418,614.02
Market Value at 31/12/2011	328,209,082.58

- 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 2011 for the long term funds expressed in USD was 2.21 % versus 1.02 % for the benchmark.

2011 Performance	
Pan Agora (Equity mandate)	-2.84%
<i>MSCI World Benchmark</i>	<i>-5.54 %</i>
Western Asset Management (Fixed Income mandate)	10.48 %
<i>Benchmark</i>	<i>10.84 %</i>
Total Portfolio	2.21 %
<i>Benchmark</i>	<i>1.02 %</i>

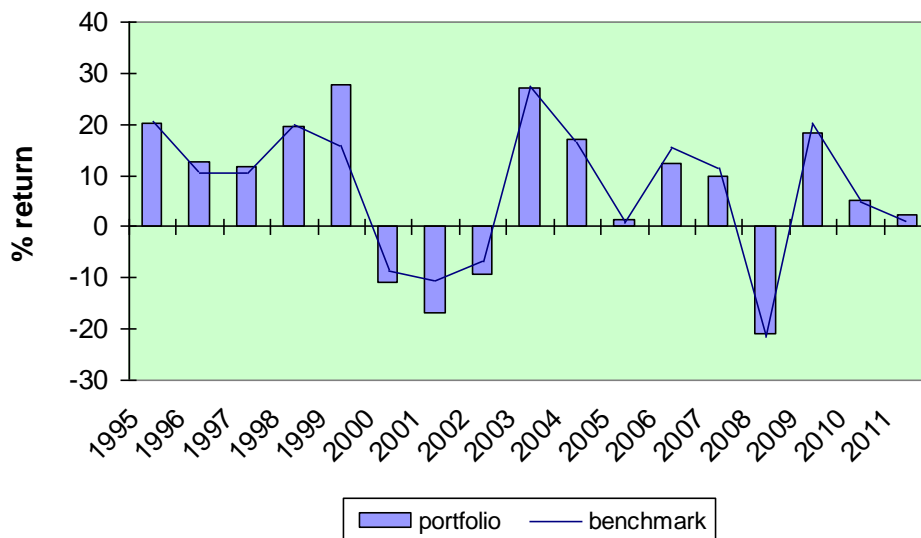
Notes:

Equity Returns based in USD

Fixed Income returns based in EUR

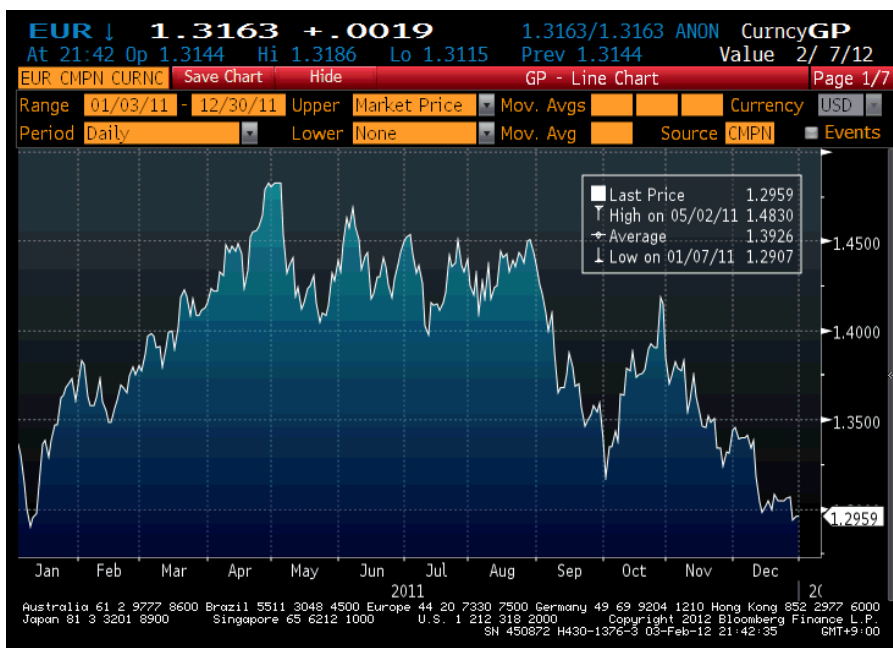
Combined returns based in USD

b) Yearly performance figures of the long-term portfolio from 1994-2011 are shown below.

Chart 3 - Long-Term Portfolio, Performance since 1994

c) The below chart illustrates the movements in the USD/EUR rate over the course of 2011. 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 - December 2011

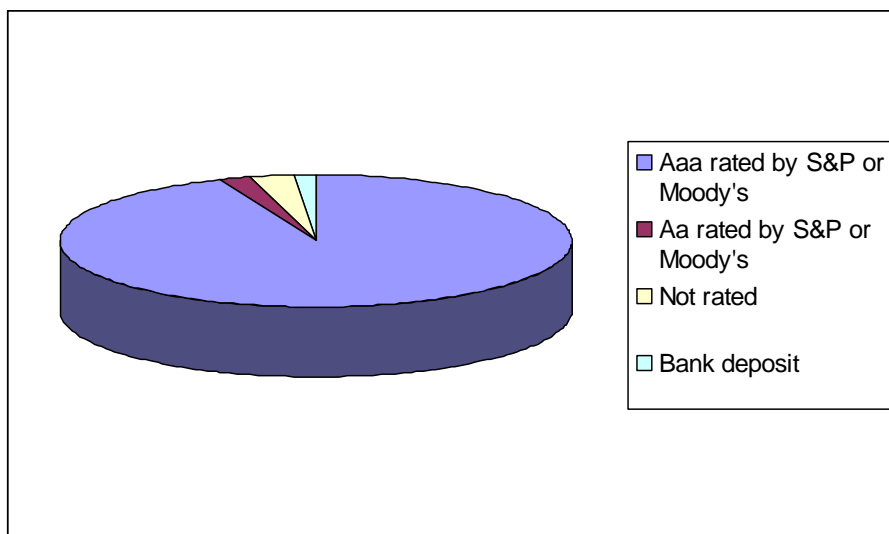


(Source: Bloomberg)

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 to 94 % as the Organization continued to reduce the risk profile of the portfolio given the persistently adverse conditions of financial markets.

Long-Term Fixed Income Portfolio

Credit Quality Distribution of Assets at 31 December 2011



15. The table below indicates the country and its relative exposure to the benchmark of the Fixed Income portfolio as per 31 December 2011, showing a zero allocation to peripheral European countries.

Country Allocation	Benchmark	Portfolio	Relative
Austria	1.43%	0.00%	-1.43
Australia	0.99%	0.50%	-0.49
Canada	2.60%	2.55%	-0.05
Germany	10.91%	26.58%	15.67
Finland	0.52%	0.00%	-0.52
France	16.90%	17.14%	0.24
UK	21.91%	20.85%	-1.06
Italy	4.77%	0.00%	-4.77
Japan	2.27%	1.95%	-0.32
Luxembourg	0.04%	0.00%	-0.04
Netherlands	2.20%	0.00%	-2.20
Sweden	1.50%	4.08%	2.58
US	33.98%	26.35%	-7.63
Grand Total	100.00%	100.00%	

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 and the World Bank 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:

	<u>At 31 December 2011</u>
Wellington Management	182,549,630
NT Government Select fund	171,925,600
HSBC EUR Liquidity Fund	10,796,349
Bank for International Settlements	300,003,194
World Bank	199,840,641
Total	865,115,414
total 2010 for ease of reference	1,024,246,256

18. During 2011, 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.

Specifically:

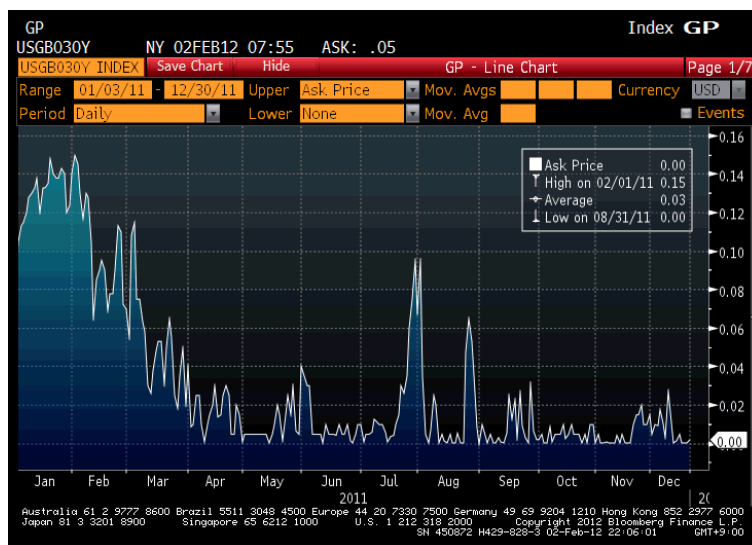
- a) Wellington Management: the Organization continued to impose very restrictive guidelines allowing only investments in very low risk instruments or instruments fully guaranteed by the US Government such as United States Treasury Bills, US government agencies' and US government backed securities.
- 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 US 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 2011.
- 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.

19. 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.

20. The performance of short-term portfolios during the course of 2011 was dominated by the extreme low interest environment for very low risk USD investments. The overall performance was 0.15 % for the year.

Fund Manager	Return, net of fees
Wellington Management	0.46%
World Bank	0.09%
NT Government Select Fund	0.05%
HSBC EUR Liquidity Fund	0.83%
Bank for International Settlements (BIS)	0.07%
Overall Performance USD (weighted Average)	0.15%
Benchmark	
Merrill Lynch 1 Month T-Bills (USD)	0.05%

The benchmark returned 0.05 % for this same period, and the chart below shows the progression of the rate through the year.



(Source: Bloomberg)

Investment Governance at FAO

21. 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.
22. Short Term asset allocation strategies are designed in close collaboration with FAO's technical investment advisor, the World Bank.
23. 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).
24. 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.
25. 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.
26. 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.
27. Finally, a detailed report on FAO's investments is provided annually to the Finance Committee. This report is available on internet website of the Finance Committee.
28. A copy of the Investment Policy for Short Term Investment will be distributed to Members of the Finance Committee for their information prior to the Committee's 143rd Session in May 2012.

Investment Expenses

29. The investment expense ratio slightly increased both in percentage and actual terms, from 0.12% in 2010 to 0.17% in 2011. In 2009, the figure was 0.16%. The main reasons for this modest increase is the new externally managed portfolio of USD 200 million by the World Bank and the reduction of the total invested assets from USD 1.340 billion to USD 1.193 billion.

30. As part of the new mandate with the World Bank, the Organization also participates in the Bank's RAMP (Reserves Advisory and Management Programme). As a RAMP participant, the Organization receives free access to World Bank advisory services as well as ten staff training slots per year on a range of key topics of concern, including general treasury, investment management, accounting and legal issues.

Investment Service Provided	2011 Expenditures in USD
Management, custodial and advisory fees	1,486,791
Treasury staffing (two professional posts)	452,003
Bloomberg Terminal	22,629
Advisory Committee on Investments Meetings	19,117
Annual Investor Compliance Meetings, Treasury Training	25,330
Total Expenses	2,005,870
Total Invested Assets	1,193,324,496
Total Expense Ratio	0.17%