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Investments of the United Nations Joint Staff Pension Fund

Report of the Secretary-General

I. Introduction

1. The General Assembly decided in 1992 to take up pension matters biennially, in even-numbered years. The current report on the investments of the United Nations Joint Staff Pension Fund (UNJSPF) covers the period from 1 April 2000 to 31 March 2002. The investment of the assets of the Fund is the fiduciary responsibility of the Secretary-General of the United Nations, who acts in consultation with the Investments Committee, taking into account the observations on broad policy of the United Nations Joint Staff Pension Board (UNJSPB) and the General Assembly. The Investments Committee provides advice to the Secretary-General on investment strategy and reviews the investment portfolio at its quarterly meetings. The representative of the Secretary-General for the investments of UNJSPF has been delegated the responsibility for the management and administration of the investment of the assets of the Fund by the Secretary-General and is assisted by the staff of the Investment Management Service (IMS). All investments must meet the criteria of **safety, profitability, liquidity** and **convertibility**. These criteria have been endorsed by the General Assembly.

2. The report describes the economic and investment conditions that prevailed in the reporting period ended 31 March 2002 and provides information on the investment returns, diversification of the investments and the development-related investment of the Fund. The statistical data are based on the audited financial statements for the calendar years 2000 and 2001 and on the unaudited appraisals ended 31 March 2002. In order to provide the General Assembly with timely information available, some data have been updated to 30 June 2002.

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II. Economic review

3. This section reviews the economic and investment environment which prevailed during the two-year period ended 31 March 2002. Economic activity and financial markets within and across countries tend to follow cyclical trends, which can be either synchronized or unsynchronized depending on the economic and financial factors existing at any given time. Through diversification of the assets of the Fund by currency, by geography and by type of investment, the Fund strives to benefit from the differences between economies and markets in order to achieve better and more stable investment returns than would otherwise be obtained. The management of the assets of the Fund has followed a relatively cautious and defensive strategy of minimizing risk in order to obtain overall positive returns and to preserve the principal of the Fund over a long period.

4. The pace of global economic growth peaked at the beginning of the calendar year 2000. Excess capacity had been created in several segments of the global economy, especially in the industries related to the telecommunications sector. Structural adjustments in such industries initiated a period of decelerating economic growth and deteriorating corporate earnings. However, consumer spending in the United States of America acted as a solitary buffer for the slowdown of the global economy. Despite the slowdown, resilient consumer spending in the United States and the upward trend of commodity prices created a concern that inflationary pressures were building up in the economy. This environment forced central banks to keep their monetary policies tight towards the end of the year 2000. However, inflation did not materialize in major economies. As low inflation targets were achieved and the slowdown in economic growth became more visible, these policies were reversed at the beginning of 2001. The pace of easing monetary policy was unprecedented and liquidity was supplied worldwide, especially after the events of 11 September 2001. During the biennium, the United States dollar remained strong against major currencies, which had a major impact on the investment environment during the biennium. It is noteworthy that several developing economies, such as the Republic of Korea and Mexico, managed to achieve solid economic growth in the difficult global economic situation described above.

III. Investment returns

A. Total return

5. The market value of the Fund’s assets decreased to US$ 21,789 million on 31 March 2002 from $26,056 million on 31 March 2000, a decline of $4,267 million or 16.4 per cent. The total investment return for the year to 31 March 2001 was negative 15.0 per cent and positive 0.7 per cent for the year to 31 March 2002. After adjustment by the United States consumer price index (CPI), these returns represent negative real rates of return of 17.4 per cent and negative 0.8 per cent, respectively. The total annualized return for the biennium was therefore negative 7.8 per cent.

6. During the biennium, the main negative contribution to performance came from equities, reflecting a broad correction in global equity markets since the peak in March 2000. Stock selection across the board had a positive contribution to total return. The negative performance by equities was partially offset by positive

performance in all other asset classes. The performance of the real estate portfolio was particularly strong, followed by short-term investments and bonds. The high level of short-term holdings in particular helped to preserve the value of the Fund during the period of high market volatility. The Fund was negatively affected by the persistent weakness of all major currencies against the United States dollar, including the euro, the yen and the pound sterling.

7. The rates of return shown in the present report have been calculated by an outside consultant, using a generally accepted method that was fully explained in the report on the management of the investments submitted to the United Nations Joint Staff Pension Board at its thirty-fourth session.[1] The calculation includes actual income received from dividends and interest as well as realized capital gains and losses. It also takes into account changes in the market value of the investments and the timing of cash flows.

8. Table 1 shows the contribution of each asset class to the total return for the years 1999 to 2002.

Table 1
Total Fund: total return based on market value for the years ending 31 March
(Percentage)

	1999	*2000*	*2001*	*2002*
Equities				
United States equities	18.4	17.5	-17.2	2.8
Equities outside United States	9.7	39.9	-30.3	-6.1
Total equities	**13.9**	**28.5**	**-24.2**	**-1.3**
Bonds				
United States dollar bonds	4.8	3.1	13.0	4.9
Non-United States dollar bonds	9.0	-5.7	-4.2	2.1
Total bonds	**6.5**	**-2.5**	**2.0**	**3.1**
Real estate	4.8	11.7	11.3	8.4
Short-term investments	9.9	3.0	4.2	3.5
Total Fund	**11.3**	**18.0**	**-15.0**	**0.7**

9. The biennium ended 31 March 2002 was characterized by a sharp negative reversal of the equity portfolio performance from the previous biennium. The equity portfolio had a negative return of 24.2 per cent and negative 1.3 per cent for the year ended 31 March 2001 and 31 March 2002, respectively. The weakness in the equity portfolio must be seen in the context of abnormally high double-digit returns achieved in the 5-year period of 1996-2000, preceding the period of 2001-2002. Specifically, during the period of 1996-2000, equities had total return of 151 per cent, or 20.6 per cent compounded annually. United States equities outperformed equities outside the United States in 1999, 2001 and 2002 while United States

[1] JSPB/34/R.10.

dollar-denominated bonds outperformed bonds denominated in currencies other than the United States dollar in 2000, 2001 and 2002.

10. Short-term results are largely influenced by the volatility of securities markets and are difficult to predict and impossible to control. The management of the Fund is geared towards maintaining a careful balance between the expectations of risk and reward over the medium to long term, rather than taking the risk inherent in seeking very high short-term returns. These considerations are even more pertinent now, taking into account the wide fluctuations in the financial markets and currencies during the period under review.

11. Global economic growth continued to deteriorate in 2002, although the manufacturing sector in the United States showed some strength during the first half of 2002. Surplus capacity, high levels of debt, political instability in some parts of the world and the widening of the Argentine crisis to other Latin American countries were some of the major events which impacted the economies and the financial markets during 2002. Stock market weakness and relatively weaker economic data resulted in dramatic changes which could trigger further interest rate cuts by central banks.

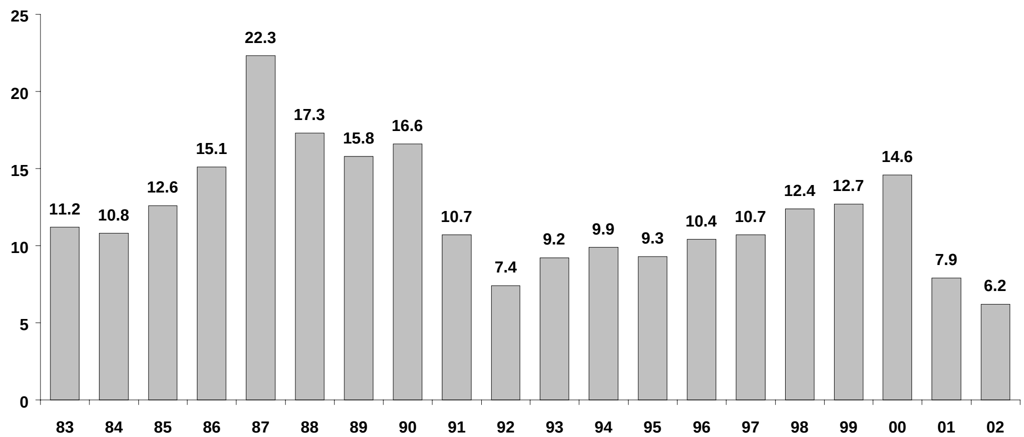
12. Between April and the end of August 2002, major financial markets continued to decline, some reaching their lowest level in seven years. The bond markets rallied during the April to August period and continued to offer good returns in the United States and Europe as short-term interest rates continued to decline. In the currency market, the United States dollar reversed its strength and started to weaken against major currencies, particularly the euro, the pound sterling and the yen. Currency movements and the weak equity markets have negatively impacted the value of the Fund since the end of the biennium.

13. The market value of the Fund as at 31 August 2002 was $20.8 billion, compared to $21.8 billion as at 31 March 2002, a decline of $1 billion or 4.6 per cent. The equity portion of the portfolio continued to be the major contributor to decline in the total Fund. Selective selling was effected during the period and the proceeds were redeployed in short-term and bond investments. The asset allocation as at 31 August 2002 was 50.7 per cent equities, 32.9 per cent bonds, 5.9 per cent real estate and 10.4 per cent short-term investments.

B. Long-term rates of return

14. The strategy of UNJSPF requires a focus on returns that cover periods longer than one year. Figure 1 shows the moving cumulative annualized rates of return for selected five-year periods.

Figure 1
Total Fund: moving annualized rate of return for five-year periods ending 31 March



During the periods shown, the highest total annualized return of 22.3 per cent occurred during the five-year period 1983-1987, owing mostly to the strong equity market performance during that period. The Fund's three highest returns were also provided during that period. While the five-year moving cumulative annualized rate of return has been lower than at its peak in 1987, in the 20 years since 1983 the Fund has experienced only one year of negative returns, as is shown in table 2. For the past three years, 2000, 2001 and 2002, the returns were positive 18.0 per cent, negative 15.0 per cent and positive 0.7 per cent respectively. The cumulative annualized total returns for the last 5, 10, 15, 20 and 25 years were approximately 6.2 per cent, 8.5 per cent, 8.1 per cent, 11.5 per cent and 10.7 per cent respectively. The cumulative annualized total rate of return over the 42-year period for which data are available was 8.5 per cent, representing a yearly real rate of return of 3.9 per cent after adjustment by the United States CPI. Detailed information on the Fund's return over the past 42 years is given in tables 2 and 3.

Table 2

Total Fund: annual total rate of return, percentages based on market value, 31 March 1962-31 March 2002

	Equities				*Bonds*							
Year	*United States*	*Outside United States*	*Total*	*MSCI World Index*[a]	*United States*	*Outside United States*	*Total*[b]	*SBGWBI Bond Index*[c]	*Real estate*	*Short term*	*Total Fund*	*Year*
1961	18.8	37.8	19.4	-		-	8.0	-	-	-	12.7	1961
1962	12.37	0.87	11.65	-	-	-	3.91	-	-	-	6.61	1962
1963	(0.60)	(16.34)	(0.59)	-	-	-	5.49	-	-	-	4.07	1963
1964	18.18	7.48	17.45	-	-	-	2.12	-	-	-	8.24	1964
1965	10.89	8.30	10.44	-	-	-	4.41	-	-	-	6.98	1965
1966	4.53	3.22	4.31	-	-	-	(2.14)	-	-	-	0.66	1966
1967	11.76	(2.32)	8.98	-	-	-	3.97	-	-	-	7.91	1967
1968	2.86	28.30	7.46	-	-	-	(4.89)	-	-	-	1.60	1968
1969	13.35	20.07	14.64	-	-	-	2.66	-	-	-	9.09	1969
1970	(5.10)	(2.18)	(4.49)	-	-	-	1.41	-	-	-	(1.75)	1970
1971	13.94	3.31	11.46	9.28	-	-	14.10	-	-	8.73	13.53	1971
1972	14.13	34.30	18.33	16.92	-	-	9.41	-	11.58	7.15	16.98	1972
1973	5.85	20.77	9.49	13.47	-	-	7.40	-	4.78	5.92	8.55	1973
1974	(16.70)	(21.48)	(18.10)	(16.40)	-	-	1.92	-	10.18	10.70	(13.55)	1974
1975	(11.20)	11.60	(5.16)	(6.09)	6.20	14.63	6.55	-	(1.03)	12.35	0.18	1975
1976	16.37	10.76	14.58	15.59	11.22	1.91	10.02	-	5.16	7.70	13.16	1976
1977	(8.25)	(3.75)	(6.62)	(0.95)	10.40	15.20	11.06	-	3.70	5.20	(0.26)	1977
1978	(5.60)	20.31	4.16	6.11	5.62	24.39	8.72	-	8.25	7.67	6.12	1978
1979	22.36	21.67	22.07	21.27	4.70	12.50	6.63	8.04	16.86	8.56	15.07	1979
1980	10.89	(10.31)	1.08	(0.18)	(9.53)	(4.64)	(7.63)	(13.16)	17.42	11.75	(0.39)	1980
1981	43.19	39.60	41.45	34.80	14.99	9.45	12.51	20.38	14.71	15.76	26.60	1981
1982	(17.88)	(19.64)	(18.77)	(15.00)	11.08	0.40	6.20	(0.69)	17.51	17.95	(7.85)	1982
1983	40.91	23.60	33.55	31.60	32.53	14.54	24.89	20.54	7.07	12.76	27.05	1983
1984	5.08	32.46	15.66	17.30	5.46	12.42	8.67	8.20	13.33	13.07	13.01	1984
1985	20.75	(6.82)	9.54	7.20	17.86	(8.22)	4.53	5.50	13.47	3.62	8.09	1985
1986	34.95	58.48	43.44	56.02	54.30	50.33	51.21	48.70	10.75	6.95	41.52	1986
1987	21.63	43.88	30.01	43.22	9.14	32.63	22.59	17.42	12.67	11.97	24.69	1987
1988	(12.18)	2.15	(4.74)	5.81	3.26	20.24	12.65	11.42	9.19	7.67	3.10	1988

Year	Equities				Bonds				Real estate	Short term	Total Fund	Year
	United States	*Outside United States*	*Total*	*MSCI World Index*[a]	*United States*	*Outside United States*	*Total*[b]	*SBGWBI Bond Index*[c]				
1989	13.20	10.00	11.30	13.56	2.10	(5.50)	(2.40)	0.36	8.20	10.40	5.90	1989
1990	21.54	13.21	16.57	(2.30)	10.47	2.93	6.20	3.12	12.31	9.72	11.56	1990
1991	8.9	1.2	4.5	3.2	12.5	17.4	15.0	16.2	5.1	13.1	8.9	1991
1992	11.3	0.1	4.9	(0.5)	13.7	14.0	14.0	14.0	(4.1)	6.5	7.6	1992
1993	17.3	6.7	11.2	12.7	15.9	17.7	16.9	19.0	(6.6)	7.5	11.6	1993
1994	(2.7)	24.4	12.4	14.0	3.4	10.1	7.7	6.8	0.5	3.0	9.7	1994
1995	11.1	6.5	8.1	9.8	2.9	18.6	12.9	12.1	0.0	5.0	8.7	1995
1996	30.2	15.1	20.5	20.6	8.0	3.3	5.1	5.3	10.4	4.1	14.6	1996
1997	18.9	7.2	11.6	9.8	6.2	2.5	3.6	1.2	8.6	4.4	8.9	1997
1998	45.4	15.4	27.3	32.4	10.6	4.3	7.0	5.4	18.9	7.0	20.4	1998
1999	18.4	9.7	13.9	13.0	4.8	9.0	6.5	10.0	4.8	9.9	11.3	1999
2000	17.5	39.9	28.5	21.6	3.1	(5.7)	(2.5)	(0.3)	11.7	3.0	18.0	2000
2001	(17.2)	(30.3)	(24.2)	(25.1)	13.0	(4.2)	2.0	(1.7)	11.3	4.2	(15.0)	2001
2002	2.8	(6.1)	(1.3)	(4.2)	4.9	2.1	3.1	0.5	8.4	3.5	0.7	2002

[a] MSCI — Morgan Stanley Capital International Index consists of 22 major equity markets.
[b] The proportion of bonds held outside the United States was not significant prior to 1975.
[c] SBWGBI — Salomon Brothers World Government Bond Index consists of 18 major bond markets.

Table 3

Total Fund: annual rates of return based on market value, percentages for selected periods ending 31 March

	2000	*2001*	*2002*	*5 years through 2002*	*10 years through 2002*	*15 years through 2002*	*20 years through 2002*	*25 years through 2002*	*42 years through 2002*[a]
United States equities	17.5	(17.2)	2.8	11.8	13.1	11.3	14.3	13.1	9.9
Equities outside United States	39.9	(30.3)	(6.1)	2.7	7.1	6.6	11.7	10.9	9.4
Total equities	**28.5**	**(24.2)**	**(1.3)**	**6.9**	**9.7**	**8.6**	**12.7**	**11.7**	**9.2**
United States bonds	3.1	13.0	4.9	7.2	7.3	7.6	11.2	9.9	7.8
Bonds outside United States[b]	(5.7)	(4.2)	2.1	1.0	5.5	6.8	9.6	9.3	8.1
Total bonds	**(2.5)**	**2.0**	**3.1**	**3.1**	**6.1**	**7.0**	**10.4**	**9.3**	**7.5**
Real estate related[c]	11.7	11.3	8.4	11.0	6.6	6.4	7.6	9.0	-
Short-term investments	3.0	4.2	3.5	6.7	5.8	6.6	7.3	8.3	-
Total Fund in United States dollars	18.0	(15.0)	0.7	6.2	8.5	8.1	11.5	10.7	8.5
Inflation-adjusted return (based on United States CPI)	13.8	(17.4)	(0.8)	3.8	5.9	4.8	8.0	5.9	3.9

[a] The Fund’s performance has been calculated for the past 42 years.
[b] The proportion of bonds held outside the United States was not significant prior to 1975.
[c] No real estate investments were held prior to 1972.

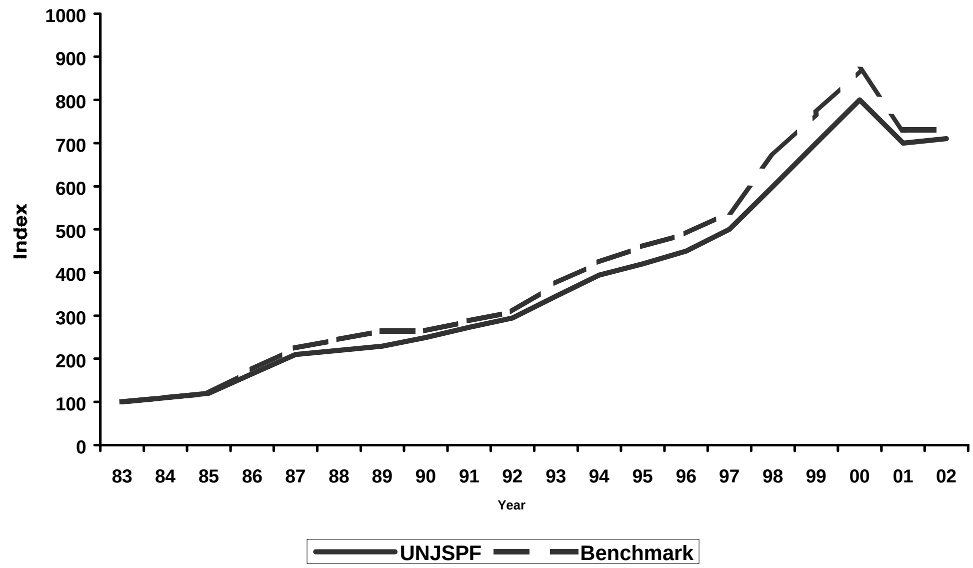
15. Over the long term, equities have continued to outperform other asset classes. This trend provides the rationale for a still relatively large equity weighting in the portfolio. Allocation to equities was reduced from 69 per cent as at 1 April 2001 to 57 per cent as at 31 March 2002 (the lowest level was in September 2001 at 54.7 per cent) as a response to sharp decline in the markets. Within the equity portfolio, United States equities have performed marginally better than equities outside the United States over the 42-year period taken as a whole. During the same period, United States equities outperformed equities outside the United States 27 times. Within the bond portfolio, the performance has been mixed. Over the 42-year period taken as whole, bonds denominated in currencies other than the United States dollar performed better than United States dollar-denominated bonds on an annualized basis. During that period, bonds denominated in currencies other than the United States dollar outperformed 23 times. Real estate-related investments, which have been included in the portfolio since 1972, have provided stable returns for the 30 years in which the total return has been calculated. During that period real estate has had only three years of negative return.

C. Comparisons of investment returns

16. During the year ended 31 March 2001, the Fund outperformed its benchmark, which is composed of 60 per cent Morgan Stanley Capital International World Index (MSCIWI) and 40 per cent Salomon Brothers World Government Bond Index (SBWGBI), with a return of negative 15.0 per cent versus negative 16.3 per cent for the benchmark. For the year ended 31 March 2002, the Fund also outperformed the benchmark, with a return of 0.7 per cent versus negative 2.0 per cent. Over the past 20 years, the benchmark had a total return of 11.7 per cent compared to an annualized return of 11.5 per cent achieved by the total Fund. Figure 2 shows the total Fund's cumulative return versus the benchmark. The main reason for the Fund's slight underperformance was low weighting in equities in the earlier years of the period. The benchmark was introduced in January 1997 and therefore this is a retroactive analysis.

17. Over the past 20 years, the MSCI World Index had a total annualized return of 12.7 per cent, which was in line with an annualized return of 12.7 per cent achieved by the Fund's total equities. During the same period, the SBWGBI had an annualized return of 9.7 per cent, compared to an annualized return of 10.4 per cent achieved by the Fund's bond portfolio.

Figure 2
Total Fund: cumulative returns versus the benchmark
March 1983-March 2002

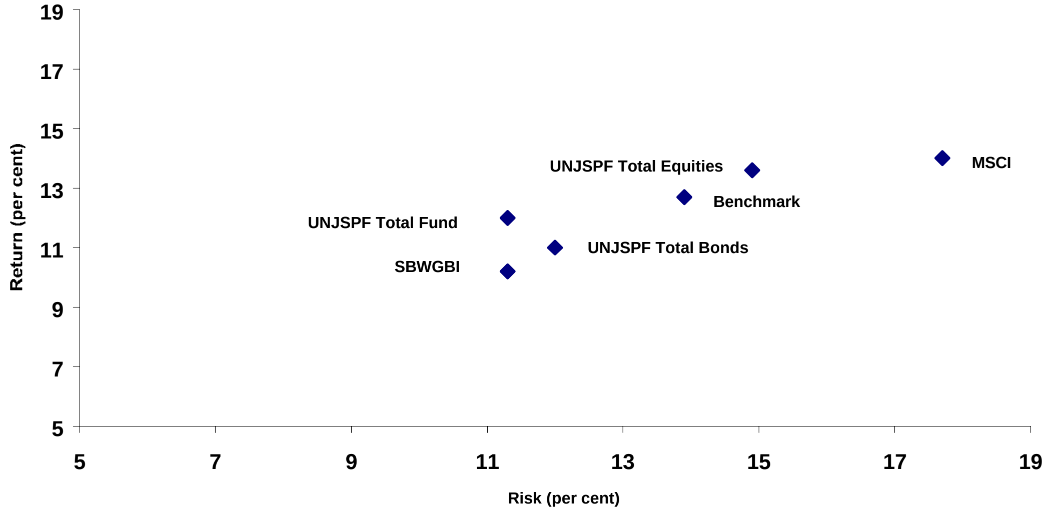


D. Risk return profile of the Fund based on average annual returns for 1980-2002

18. The most widely accepted definition of risk is the variability of the rate of return. The more uncertainty there is about the rate of return on an investment instrument over some future period, the greater is the risk. Thus the uncertainty of the rate of return is a useful measure of risk. The amount of risk a fund has taken can be quantified by calculating the rate of return of the fund or its components, finding the average rate of return for any given period and measuring the variability of the return around the average. The biggest limitation to this measurement is that it can only be done retroactively; that is, until the rate of return is known, the variability of that return cannot be measured. The only assumption that can be made is that the future might be like the past and therefore to use past variabilities as a measure of future variabilities.

19. Figure 3 shows the risk return profile of the Fund compared with that of the benchmark and its two components, using average annual returns over the past 20 years.

Figure 3
Total Fund: risk return profile based on annualized returns March 1983-March 2002



20. As mentioned above, the degree of risk in any portfolio is usually associated with the degree of uncertainty about the return. Figure 3 shows for each point the average 20-year return for the Fund, total equities, total bonds and their respective benchmarks plotted against standard deviations of returns over the period. The rolling 20-year numbers give a very good picture of how the Fund has been performing over the longer term, which meets the objective of obtaining an optimal investment return that avoids undue risk.

Table 4
Risk return profile based on average annual returns, March 1983-March 2002
(Percentage)

	Risk	*20-year average return*
UNJSPF-Total Fund	**11.3**	**12.0**
Benchmark	13.9	12.7
UNJSPF-Equities Total	14.9	13.6
MSCI	17.7	14.0
UNJSPF-Bonds Total	12.0	11.0
SBWGBI	11.3	10.2

21. Figure 3 and table 4 indicate that when compared to the benchmark, the Fund has had a better risk return profile. The Fund's return of 12.0 per cent was slightly lower than the benchmark's return of 12.7 per cent, but the Fund's volatility, 11.3 per cent, was substantially less than that of the benchmark, 13.9 per cent. The Fund had a better risk return profile because it has a well-diversified portfolio that includes all major asset classes and its holdings are concentrated in blue chip companies.

22. Within asset classes, the Fund's equity portfolio slightly underperformed (13.6 per cent) versus the MSCI World Index (14.0 per cent), but the equity portfolio had a much better risk profile (14.9 per cent) compared to the MSCI World Index (17.7 per cent). The bond portfolio (11.0 per cent) outperformed the SBWGBI (10.2 per cent) but had slightly higher volatility (12.0 per cent) compared to the SBWGBI (11.3 per cent). This can be explained by the fact that the Fund had some exposure to non-government bonds, which are not part of SBWGBI.

IV. Diversification

23. As the markets were very volatile and the proportions allocated to the four asset classes also changed, the long-term asset allocation guidelines were adjusted during the biennium to give more flexibility and to reflect the fact that the allocation to short-term investments had remained above the long-term guidelines for an extended period. In February 2001, the long-term guideline for short-term investments was changed to 3-10 per cent from 3-5 per cent.

24. In addition to changing the proportions of the various asset classes in the portfolio, changes were made within asset classes to implement the Fund's investment strategy and to take advantage of new trends in economic cycles and financial markets as well as movements in currencies and interest rates. Over the biennium, the proportion of investments in United States dollars was increased to 56.6 per cent from 51.8 per cent, the proportion of investments in major European currencies was increased to 27.8 per cent from 27.6 per cent, and Japanese yen-denominated investments were reduced to 5.3 per cent from 11.0 per cent. The broad diversification of the Fund reduces risk across currencies and markets.

25. Diversification consists in the investment of assets among a variety of securities or among securities in a variety of markets, with the goal of reducing risk in a portfolio without reducing the expected return. The Fund's policy of broad diversification of its investments by currency, types of asset classes and geographical areas continued to be the most reliable method of reducing risk and improving returns over long periods of time. UNJSPF is unique among major pension funds in its commitment to global investment. The diversification of the assets of the Fund by types of investment for March 2000 and March 2002 were equities 69.4 and 57.1 per cent, bonds 21.1 and 27.9 per cent, real estate 3.6 and 5.5 per cent and short-term investments 6.0 and 9.7 per cent respectively. Geographical diversification for the same period was North America 48.9 and 49.4 per cent; Europe 31.8 and 34.4 per cent; Asia and the Pacific 15.2 and 10.2 per cent; emerging markets 1.7 and 1.6 per cent; and regional institutions 2.4 and 4.4 per cent. Currency diversification as at March 2002 was United States dollar 57 per cent, euro 20 per cent, pound sterling 6 per cent, Japanese yen 5 per cent, Swiss franc 2 per cent and others 10 per cent.

26. In terms of geographical diversification, the proportion of the Fund invested in North America was maintained at 49 per cent in the period from March 2000 to March 2002. Investments in Europe were increased to 34 per cent from 32 per cent, while in Asia and the Pacific, the proportion of investments declined to 10 per cent from 15 per cent during the same period. Table 5 provides detailed breakdowns of the diversification by geography.

Table 5
Total Fund: countries/areas of investment[a]
Market value as at 31 March 2002
(In millions of United States dollars)

Countries/areas	*Total*	*Percentage*
Australia	98.4	0.45
Austria	51.4	0.24
Belgium	107.4	0.49
Brazil	64.5	0.3
Canada	636.9	2.92
Chile	37.2	0.17
China	52.8	0.24
Denmark	287.8	1.32
Egypt	3.5	0.02
Emerging markets	34.8	0.16
Finland	169.2	0.78
France	1 036.9	4.76
Germany	1 445.4	6.63
Ghana	2.8	0.01
Greece	82.6	0.38
Hong Kong SAR	108.4	0.5
Hungary	43.6	0.2
Iceland	15.5	0.07
India	29.8	0.14
Ireland	178.1	0.82
Israel	24.7	0.11
Italy	380.4	1.75
Japan	1 219.6	5.6
Jordan	4.8	0.02
Kenya	0.2	0.00
Malaysia	27.2	0.12
Mauritius	0.0	0.00
Mexico	152.8	0.70
Netherlands	605.6	2.78
New Zealand	167.4	0.77

Countries/areas	*Total*	*Percentage*
Norway	275.9	1.27
Philippines	9.8	0.04
Poland	22.5	0.10
Portugal	73.9	0.34
Qatar	20.7	0.09
Republic of Korea	171.2	0.79
Saudi Arabia	7.8	0.04
Singapore	50.9	0.23
Slovenia	25.6	0.12
South Africa	22.0	0.10
Spain	366.0	1.68
Sweden	588.5	2.26
Switzerland	330.0	1.51
Taiwan Province of China	6.0	0.03
Tunisia	2.8	0.01
Turkey	0.0	0.00
United Kingdom	1 674.1	7.68
Zimbabwe	3.6	0.02
Regional institutions (Africa)	60.3	0.28
Regional institutions (Asia)	127.9	0.59
Regional institutions (Europe)	359.4	1.65
Regional institutions (Latin America)	61.1	0.28
International institutions	306.7	1.41
Total outside United States	**11 658.4**	**53.5**
United States	10 130.8	46.5
Total Fund	**21 789.3**	**100.0**

[a] Country of investment is generally based on the domicile of the issuer. Convertible securities are classified according to the currency into which they are convertible. Various investment trusts which trade in currencies other than the currency of investments are classified under the countries.

27. Diversification in terms of asset class, currency and region had a significant impact on the performance of the Fund. Investing in only one currency other than the United States dollar would have had a negative impact on the performance, as the movements of the currencies against the dollar are not synchronized. There were several times when the total returns were negative in local currencies but positive in dollar terms.

V. Investments in developing countries

28. In its resolution 36/119 of 10 December 1981 on the investments of the United Nations Joint Staff Pension Fund, the General Assembly endorsed the policy of diversification of the investments of the Fund in developing countries. Investments are made wherever it serves the interests of participants and beneficiaries. At the time of initial purchase, the investments should meet the four criteria of safety, profitability, liquidity and convertibility. The Fund continued its efforts, in accordance with established investment criteria, to identify appropriate investment opportunities. Direct and indirect investments in developing countries amounted to $1,320 million at cost as at 30 June 2002, an increase of 17.3 per cent from 30 June 2000. Details of the investments are provided in table 6. There were increased investments in Africa, Asia and Latin America. Development-related investments accounted for 7.4 per cent of the Fund's assets at book value. Approximately 42 per cent of these holdings were denominated in currencies other than the United States dollar.

29. IMS continued to have close contacts with the World Bank, the International Monetary Fund, regional development banks and other sources in order to take advantage of investment opportunities in developing countries during the biennium. Investment visits were undertaken in Africa, Asia, Eastern Europe and the Middle East during the period under review. The current investment environment is once again becoming more favourable for emerging market investments and the Fund is seeking to increase its exposure through suitable investment instruments while taking into account the investment criteria of the Fund.

Table 6
Development-related investment by book value as at 30 June 2000 and 30 June 2002
(in thousands of United States dollars)

	United States dollars	*Other currencies*	*Total 2000*	*Total 2002*
Africa				
Egypt	7 020		7020	7 020
Ghana	7 122		7 122	7 122
Kenya		219	219	219
Mauritius			3 000	0
South Africa	36 227	43 124	7 827	79 351
Tunisia	4 350		4 350	4 350
Zimbabwe		2 935	3 088	2 935
Regional funds	6 652		5 868	6 652
Subtotal	**61 371**	**46 278**	**38 494**	**107 649**
Development institutions	54 547		85 916	54 547
Total Africa	**115 918**	**46 278**	**124 410**	**162 196**

	United States dollars	*Other currencies*	*Total 2000*	*Total 2002*
Asia				
China	10 605	73 848	20 537	84 453
Hong Kong SAR	14 751	34 015	61 744	48 766
India	24 983		25 012	24 983
Jordan		4 359	5 391	4 359
Malaysia		27 057	40 038	27 057
Philippines		25 380	38 180	25 380
Qatar	20 680	0	11 000	20 680
Republic of Korea	37 529	99 255	127 960	136 784
Saudi Arabia	5 125	0	5 125	5 125
Singapore	15 171	23 791	55 254	38 962
Regional funds	69 895	20 589	56 457	90 484
Subtotal	**198 739**	**308 294**	**446 698**	**507 033**
Development institutions	19 750	0	19 751	19 750
Total Asia	**218 489**	**308 294**	**466 449**	**526 783**
Europe				
Cyprus		43 817	0	43 817
Turkey	0	0	4 435	0
Regional funds		65 637	40 068	65 637
Subtotal	**0**	**109 454**	**52 503**	**65 637**
Total Europe	**0**	**109 454**	**52 503**	**65 637**
Latin America				
Argentina	0	0	36 252	0
Brazil	18 334	48 428	105 944	66 762
Chile	40 769	0	27 251	40 769
Mexico	104 079	44 213	107 270	148 292
Peru	0	0	2 929	0
Regional funds	20 701	0	5 463	20 701
Subtotal	**183 883**	**92 641**	**285 108**	**276 524**
Development institutions	144 310	0	52 709	144 310
Total Latin America	**328 193**	**92 641**	**337 817**	**420 834**

	United States dollars	Other currencies	Total 2000	Total 2002
Other development institutions				
International Bank for Reconstruction and Development	101 808	0	143 757	101 808
Fiduciary Emerging Markets Bond Fund	12 151			12 151
Emerging Markets Investors Fund	30 359			30 359
Total other development institutions	144 318		143 757	144 318
Grand total	**806 918**	**556 667**	**1 124 938**	**1 319 768**

VI. Conclusion

30. The financial markets experienced the most volatile periods during the biennium. Major central banks initiated the most aggressive monetary policies in a decade. Initially there were fears of inflationary pressures developing due to overheating economic growth, especially in the United States.

31. While economies were struggling to register meaningful growth, the financial markets experienced the sharpest decline after reaching historically high levels. The fragile financial markets suffered a further setback after the events of 11 September 2001. Companies continued to report very poor earnings and sharp downward revisions of expected earnings. Investors, after experiencing large losses, became very sensitive to negative news, however small, so that even after some recovery seen in the final quarter of the biennium, the markets never really recovered to meaningful levels.

32. The Fund experienced its first negative return in 18 years during the first year of the biennium. The management adopted a more defensive asset allocation by reducing exposure to equities, increasing exposure to bonds and real estate, as well as substantially increasing exposure to short-term investments. Despite low yields on short-term investments due to declining interest rates, the move to increase short-term investments as a defensive move to protect the principal of the Fund was beneficial to the Fund because there were no better alternatives. Bonds had a difficult time providing meaningful capital gains during the period. Real estate, which performed well, offered limited investment opportunities. Increasing the asset class normally takes 12 to 18 months; hence the Fund could not increase the asset class as quickly as the other asset classes were moving.

33. After the end of the biennium, the economic and investment environment did not improve. The value of the Fund continued to decline, but remained relatively stable compared to the decline in the financial markets. This was due to the extent of diversification of the investments of the Fund. Such broad diversification is usually helpful in a volatile environment such as has been experienced by the Fund.