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Investments of the United Nations Joint Staff Pension Fund and measures undertaken to increase the diversification of the Fund

Report of the Secretary-General

I. Introduction

1. The management of the investments of the assets of the United Nations Joint Staff Pension Fund is the fiduciary responsibility of the Secretary-General of the United Nations, who acts in consultation with the United Nations Investments Committee, taking into account the observations on broad policy of the United Nations Joint Staff Pension Board and the General Assembly. The Investments Committee provides advice to the Secretary-General on investment strategy and reviews the investments of the Fund at its quarterly meetings. The Under-Secretary-General for Management was designated as the representative of the Secretary-General for the investments of the Pension Fund on 1 June 2014 and has been delegated the responsibility for overseeing the investment of the assets of the Fund. The Representative is assisted by the staff of the Investment Management Division. All investments must, at the time of initial review, meet the criteria of safety, profitability, liquidity and convertibility.

2. The present report provides information on the management of the investments of the Fund during the fiscal biennium from 1 April 2012 to 31 March 2014 and provides information on investment returns, diversification of investments and development-related investments of the Fund.

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II. Changes during the fiscal biennium

3. During the fiscal biennium ended 31 March 2014, the market value of the Fund's assets had increased to $51,837 million as at 31 March 2014, from $43,091 million as at 31 March 2012, an increase of $8,746 million, or approximately 20.3 per cent. The Fund had an annualized return of 10.1 per cent, outperforming the policy benchmark return of 9.6 per cent by 46 basis points. The total investment return was 8.1 per cent for the fiscal year ended 31 March 2013 and 12.1 per cent for the fiscal year ended 31 March 2014. The equity markets led by Europe and the United States of America were the main drivers of the strong performance, generating an annualized return of 14.1 per cent. After adjustment by the United States consumer price index, those returns represent real rates of return of 6.6 per cent and 10.6 per cent, respectively. The Fund has achieved the investment return target of 3.5 per cent in real return in the past 10, 15, 20, 25 and 50 years.

4. The Fund maintained a cautiously optimistic view on global equity, while the global macroeconomy continued a steady recovery and valuations remained attractive. The Fund increased the overweight inequity, allocating from 60.6 per cent as at 31 March 2012 to 64.9 per cent as at 31 March 2014. This compared with the 60 per cent strategic asset allocation. The Investment Management Division was cautious in fixed-income securities amid the historical low yields and the recovery of the economy. The Fund maintained an underweight position throughout the biennium, however the allocation was lowered. As at 31 March 2014, the bond allocation was 24.2 per cent, almost at the lower limit of the tactical allocation. The allocation was lowered from 28.8 per cent as at 31 March 2012. The Fund benefited from the tactical asset allocation during the biennium. Over the long term, through active management, the Fund will endeavour to outperform the policy benchmark with effective stock selection and periodic rebalancing of assets to maintain the Fund's long-term investment objectives. The Investment Management Division continues to focus on balancing the risk and reward expectations by apportioning the Fund's assets according to allocation goals which are appropriate for a long-term investment horizon.

5. For the two-year period ended 31 March 2014, the Fund's bond portfolio returned 2.11 per cent, outperforming the Barclays Global Aggregate index return of 1.56 per cent by 55 basis points. During that period, overweight bond positions outside the core markets, such as Mexico, Norway, Poland and Sweden, were positive contributors to the Fund's return. The Fund held underweight bond positions in pounds sterling, euros and yen. The underweight position in euros and pounds sterling detracted from performance owing to duration positioning and the strong currency appreciation versus the United States dollar. The underweight position in yen contributed to performance, as the currency depreciated against the dollar.

6. The Division continuously sought investment opportunities in a wide range of geographical regions, including global emerging and frontier markets, through various asset classes such as public equity, private equity, bonds, real estate, infrastructure and timber lands. Methodically and prudently building a portfolio takes time, owing to the extensive due diligence process (at which stage many investment proposals were rejected), and contract negotiations. As at 31 March 2014, the Fund held direct securities investments in 39 countries and 23 currencies,

along with indirect country investments through international institutions and externally managed funds.

7. The Division took a relatively cautious stance over the global emerging and frontier markets during the course of the fiscal biennium because of the concern over the slowdown in economic growth from a tactical perspective. However, it continued to seek further diversification opportunities via the internally managed portfolio, together with the externally managed funds and exchange traded funds, given limited resources. While externally managed funds employ actively managed strategies through stock selection and country allocation to achieve outperformance, exchange traded funds utilize passive strategies providing quick access to the broad investment universe. The strategies complement each other in terms of liquidity requirements, market access and coverage. All investments met the Division's investment criteria. Specifically with regard to investments in Africa, given the limited availability of external funds with sufficient track records, size and management expertise, as part of its continuous efforts to identify funds meeting those requirements, the Division successfully added the Duet Africa Opportunity Fund to the portfolio during the biennium, in addition to the existing investments in the Ashmore Africa Fund. It also added investments in the Global Frontier Markets exchange traded funds. Furthermore, the Fund has emerging markets exposure through four additional global private equity funds. Such exposure is an increasingly critical part of the Fund's private equity investment portfolio. As at 31 March 2014, the Fund had already committed $600 million to eight private equity funds focused on emerging markets of Asia, Africa, Latin America and Eastern Europe.

8. During the fiscal biennium ended 31 March 2014, commercial real estate markets experienced an acceleration in investment activity. United States investment continued at a healthy pace, with a sharp acceleration in Europe. Asia had less activity, and emerging markets were mostly inactive. During the fiscal biennium ended 31 March 2014, the Investment Management Division made nine real estate commitments totalling $575 million, including one for €50 million; and two Infrastructure Fund commitments totalling $125 million. The first Timberlands Fund was added to the portfolio with a commitment of $75 million. Real estate investments totalled $1.98 billion as at 31 March 2012, or 4.5 per cent of the Fund. As at 31 March 2014, investments totalled $2.58 billion, or 4.9 per cent of the Fund. The real assets portfolio, including investments in real estate, infrastructure and timberlands, increased to $2.66 billion, or 5.1 per cent of the Fund, as at 31 March 2014.

9. During the fiscal biennium ended 31 March 2014, the Fund committed approximately $900 million in 10 private equity funds. Since its inception in June 2010, the Fund's private equity programme made 24 private equity globally diversified investments committing $2 billion as at 31 March 2014. Of that amount, approximately $627 million was invested and the total fair market value of the Fund's private equity portfolio as at 31 March 2014 was $703 million. Approximately $1.5 billion represents unfunded commitments expected to be deployed in the next four to five years. The Fund's private equity allocation by market value stood at 1.2 per cent of the Fund's 31 March 2014 total market value. As at 31 March 2014, the internal rate of return for the Fund's private equity portfolio outperformed the policy benchmark by 720 basis points, generating 10.6 per cent, compared to the 3.4 per cent Thomson median internal rate of return. The Investment Management Division is currently reviewing a number of private

equity partnerships and anticipates making private equity annual commitments of $800 million, plus or minus $200 million.

10. The Fund had allocated 2.35 per cent to the risk control strategy as at 31 March 2014. This is a strategic portfolio which has overlapping elements over multiple conventional asset classes. Currently, it consists of minimum volatility exchange traded funds and the All Weather Fund. The minimum volatility strategy is categorized as equity with regard to the asset class, while the All Weather Fund is categorized in alternative investments. The investment in minimum volatility exchange traded funds was discussed with the Investments Committee in November 2011 and in February 2012, as a part of the Investment Management Division's strategy to deploy cash, which remained at a high level, into equities for the potential return enhancement while limiting downside risk in the face of highly volatile markets. The index is designed to minimize equity volatility within constraints to maintain broader market exposure through the use of an optimization process applied to large and medium capitalization equities across 45 developed and emerging markets. All Weather Fund is a risk balanced asset allocation strategy managed by Bridgewater Associates. The central tenet of the All Weather beta strategy is to capture the risk premium embedded across asset classes while minimizing risk due to shifts in the economic environment. All Weather fund diversifies itself beyond simple equity and bonds by investing in equities, commodities, global debt, currencies and derivatives. As at 31 March 2014, the values of minimum volatility exchange traded funds and All Weather Fund were $718.2 million and $500.7 million, respectively. In November 2010, The Investment Management Division began investing in commodities as a component of the real return strategies. For the fiscal biennium ended 31 March 2014, the Fund's $200 million investment in commodities returned -4.7 per cent, versus the Dow Jones-UBS Commodity Index benchmark return of -2.6 per cent, bringing the Fund's total commodities exposure as at 31 March 2014 to $186 million.

11. Since the establishment in 1983 of the Investment Management Services, now the Investment Management Division, the Fund's assets have been managed largely on the basis of non-discretionary advisers. The Division had reconfigured the advisory framework within the current budget and separated asset allocation from equity research. In consultation with the Investments Committee and with the recommendation of the General Assembly, the Division has begun to reduce the number of external non-discretionary advisers in an effort to reduce costs for the Fund. The number of investment officers has been increased in past years and will be increased during the current biennium. The equity analytical tools were implemented in January 2014 to provide comprehensive and thorough equity valuation analysis for equity portfolio valuation and screening. With enhanced internal resources, the Division will be able to reduce the dependency on the non-discretionary advisers.

12. The Trade Execution Officer post for the Investment Management Division was filled in May 2013. The Trade Execution Officer assists the Division in achieving best execution of trades and minimizing transaction costs. The Trade Execution Officer is currently conducting research, making recommendations and helping with the implementation of best execution practices for the Fund. This includes not only monitoring trading costs and the quality of executions, but also designing the most appropriate trading infrastructure. The Trade Execution Officer introduced algorithmic trading to the Division in 2013, which included various cost-

saving trading strategies. The explicit cost to the Fund with the incorporation of this type of trading during the period from June to December 2013 was $50,000. Without algorithmic and programme trading the cost would have been $250,000; a savings to the Fund of $200,000, just from explicit costs alone; while implicit costs were reduced by accessing a larger liquidity pool. The Division will seek opportunities to utilize these trading strategies for larger sizes of basket trading.

13. For the biennium from 1 April 2012 to 30 March 2014, the Division filled 12 posts, as follows: 3 posts in 2012; 5 posts in 2013; 4 posts in 2014. The former representative of the Secretary-General, Warren Sach, retired in February 2013; Maria Eugenia Casar served as representative of the Secretary-General from February 2013 to May 2014. In June 2014, the Under-Secretary-General for Management, Yukio Takasu, was designated as the representative of the Secretary-General. During the sixty-eighth session of the General Assembly, there was discussion of establishing a post for a full-time representative of the Secretary-General for the investments of the Fund. The post was approved in April 2014 and recruitment is under way.

14. For the fiscal year ended in March 2014 the transactional volume totals were: $17 billion in 2,811 equity transactions (a 37 per cent increase from the previous year); $4.8 billion in foreign exchange (a 41 per cent increase from the previous year); and $2.7 billion for the fixed-income asset class. The straight-through-processing rate from start to finish, utilizing an electronic system and without intervention of any sort, for 3,180 transactions was 68 per cent (a 23 per cent increase from the previous year).

15. In the fiscal biennium 2012-2014, the Investment Management Division implemented Omgeo, a trade confirmation and affirmation system for global and domestic equities, and Murex phase 1, a trade settlement system. The implementation of the systems aimed to allow the Division to use the programme and basket trading techniques used to rebalance investment portfolios in a timely manner. Regarding the information and communications technology infrastructure aspect, the Division upgraded its e-mail, mobile office and mobile devices.

16. In administering the Fund’s policies and procedures, the Risk Management and Compliance section supported updates of the Fund’s investment policy and the investment procedures and risk management manuals (formally approved by the representative of the Secretary-General on 2 April 2014). The updates introduced several important changes that, among other things, addressed the delegation of authority on investment limits, fixed-income agency credit rating limits and the definition of small-capitalization securities.

17. Voting rights are valuable assets of the Fund. As a fiduciary, the Fund, through the Investment Management Division, has an obligation to ensure that shares owned by the Pension Fund are voted in a way that supports the interests of the Fund’s participants and beneficiaries over the long term.

18. The Division has implemented an automated proxy voting service based on its proxy policy providing a more robust and auditable system, which enhances the integrity of voting arrangements. Following are some key advantages of the new system: (a) investment officers cast only those few proxy votes that are outside the automated voting process using the Division’s proxy policy, which leads to better use of time for the investment officers; (b) the management, tracking, reconciling

and reporting of the Fund's proxy voting via integrated reporting and record-keeping; and (c) proxy voting is done well in advance of deadlines.

19. Staff of the Operations Section of the Investment Management Division successfully implemented four projects in 2012-2013: (a) use of the International Public Sector Accounting Standards (IPSAS) for the investments of the Fund; (b) master record-keeper transition; (c) transition of global custodian for global emerging markets; and (d) phase 1 of the Murex back-office system. The Operations Section staff contributed to the completion of the Fund's 2012 and 2013 IPSAS-compliant financial statements by mid-2013 and mid-2014, respectively, and lessons learned from the 2012 exercise were applied to ensure a smooth transition to the 2013 statements. In 2013, IPSAS-compliant reconciliation and accounting procedures were rolled out, which avoided duplication of master record-keeper functions and enabled the Division's Operations Section staff to maintain accurate accounting records.

20. The audit, tax and advisory firm, KPMG LLP, was engaged on 7 January 2013 as the Fund's global tax adviser to assist the Fund in its tax recovery efforts. As at 1 August 2014, the Fund had received tax rulings confirming its tax-exempt status in Australia, Austria, China, the Czech Republic, Germany, Kenya, the Netherlands, the Philippines, the Russian Federation, the Republic of Korea, Spain, Switzerland and the United Kingdom of Great Britain and Northern Ireland. As a result of those efforts, the Fund has been granted relief at the source in the majority of those countries, in conformity with the Convention on the Privileges and Immunities of the United Nations. The Fund will continue to assert its rights under the Convention for as long as tax issues remain outstanding. Relief at the source is the best solution because it eliminates the risk of adverse currency fluctuations or foregone income when cash is withheld from the Fund. It also reduces the administrative burden of filing for refunds of withholding tax.

III. Economic review

21. During the fiscal biennium ended 31 March 2014, the economy of the United States of America struggled to achieve sustainable real economic growth. Gross domestic product (GDP) adjusted by real inflation expanded at an annualized rate of 2.2 per cent in 2013 compared with 2.3 per cent in 2012 and 1.6 per cent in 2011. This is below the historic growth rate trend of the United States economy over the 1985-2007 period of nearly 3 per cent (before the "great recession" of 2008-2009). The rate of growth in nominal GDP has averaged 3.0 per cent during the post-recession period, also well below long-term levels of closer to 6 per cent. The relative uncertainty of the early post-recovery period attributable to the financial crisis atmosphere gave way to gradually improving levels of business and consumer confidence, lower trending volatility and a more normalized risk/investing environment over the 2013-2014 fiscal period. The United States Federal Reserve pursuit of non-traditional monetary policies (quantitative easing) served to provide ample market liquidity during this transition-to-recovery period, resulting in subdued levels of both policy and market interest rates for a prolonged period. The unemployment rate has improved steadily from late 2009 peak levels in the face of lingering structural headwinds. The housing market has rebounded from trough levels in terms of both demand and prices, but remains well below prior-cycle peak levels. United States auto production and sales are at near-record levels. Consumer

confidence measures (University of Michigan, Conference Board survey data) have only just recently reached long-term historic average levels. Core inflation trends as measured by the consumer and producer price indices have remained quite restrained and under control through the period. The Canadian economy has experienced a restrained growth pattern similar to that of the United States (Canada's most significant trading partner), with more dependence on export trade activity, which accounts for nearly one third of the total economy. Real economic growth advanced by 2.3 per cent in 2013, which was ahead of 2012 levels but still below the 2011 level of expansion.

22. In this gradually improving setting, the United States equity market (as represented by the Standard & Poor's 500 Index, total return basis) managed to achieve a 39 per cent gain over the fiscal biennium and has experienced a 208 per cent increase from the trough levels of March 2009. Earnings, cash flows and balance sheets continue to be in a relatively strong condition, with more modest rates of improvement likely going forward as the market cycle matures. Corporate results (as referenced, the investable universe) have continued to outperform the underlying real economy as management maximizes profitability in a challenging environment. United States equity valuations on a price-to-earnings basis have adjusted over the period closer to long-term levels, improving to approximately 16 times the forward estimated earnings from 13.5 times two years earlier. It is expected that United States equities will continue to achieve attractive nominal returns for the Fund over the visible future, considering through-the-cycle peak earnings and valuation potential.

23. Although economic conditions in Europe remained weak during the fiscal biennium, signs of stabilization and some gradual improvement became apparent. The European Central Bank helped to calm market fears of a eurozone break-up in middle and late 2012 with the announcement of its Outright Monetary Transactions programme. The Bank's pledge to consider unlimited purchases of short-term sovereign debt marked a turning point in the region's financial crisis. Despite periodic challenges, such as aid packages for Cyprus and Greece, and political uncertainty before elections in Germany and Italy, the risk of a sovereign default declined dramatically after the European Central Bank's action. Equity markets reacted favourably to the reduction in macrorisks and supportive monetary policy, and were further buoyed by the measured improvement of economic data in the region. The eurozone emerged from recession during the second quarter of calendar year 2013, and equity markets rallied throughout the year to finish the biennium period near five-year highs. Although persistently high unemployment, very low inflation and continuing political issues remain concerns, forecasts call for positive GDP growth in the eurozone and the United Kingdom in the coming years.

24. During the earlier part of the period under review, the Japanese economy was characterized by stagnation, owing to the post-earthquake recovery, particularly in the first half of the fiscal year ended 31 March 2013. The yen remained persistently strong, staying below ¥80 against the United States dollar. Towards the end of the calendar year 2012, however, the tide changed with the landslide victory of the Liberal Democratic Party in the Lower House snap election under the new Prime Minister, Shinzo Abe. From mid-November 2012 until the end of December 2013, the yen depreciated by 30 per cent against the United States dollar, 40 per cent against the euro and 34 per cent against the Korean won. The stock market showed a strong rally during the same period, rising 74 per cent in United States dollar terms.

Expectation for more proactive moves from the Bank of Japan to end deflation, as well as aggressive stimulus measures and an effective growth strategy by the Government — so-called "Abenomics" — drove both the currency and equities markets. The weaker yen, improved consumer and corporate sentiment and high operating leverage after years of cost reduction resulted in substantial corporate earnings growth of 65 per cent in the fiscal year ended March 2014. In March 2013, the new Bank of Japan Governor responded to the Prime Minister's pledge to end deflation by targeting 2 per cent growth in the consumer price index within two years. Consumer price index growth, which, since early 2009, had not risen above zero, turned positive in May 2013 and has been accelerating its year-on-year growth to 1.3 per cent by March 2014.

25. Driven by a surge in the demand for commodities in emerging markets, especially from China, the "two-speed economy" in Australia persisted through most of the fiscal year ended 31 March 2013, wherein the domestic economy remained depressed but the resources sector continued to be boosted by volume growth. Mining investment grew 50 per cent year on year during the fiscal year ended 31 March 2013, accounting for 65 per cent of GDP growth for the year. The trend turned in the fiscal year ended 31 March 2014, when most resources companies started cutting capital expenditure while focusing more on the balance sheet, cash flow and shareholder return, resulting in a 15 per cent drop in total mining investment during the year. The Australian economy, however, weathered the headwinds during the fiscal year ended 31 March 2014 with recovery in the non-resources sectors, resulting from aggressive rate cuts by the Reserve Bank of Australia down to 2.5 per cent. The residential property market started booming, with house prices rising by 10.9 per cent year on year from January to March 2014, and retail sales growth accelerated from the 2012 average of 3.1 per cent to 5.6 per cent year on year during the same period. The weaker Australian dollar also supported the manufacturing sector and the services industry. Both Hong Kong, China, and Singapore suffered from significant deceleration of economic growth during the period under review.

26. During the fiscal biennium, emerging markets faced very challenging economic conditions while investors experienced high stock market volatility. The beginning of the period saw global economic activity and equity markets depressed by a slowdown in China and developed country growth, the eurozone debt crisis and uncertainty created by the United States budget battle. Major central banks responded with unprecedented monetary policy measures through quantitative easing to stimulate economic growth. Investment decisions were also influenced by geopolitics, with elections taking place in Brazil, India and Indonesia, while the situation in the Russian Federation and Ukraine contributed to global uncertainties.

27. China achieved annual GDP growth of 7.7 per cent in both 2012 and 2013 with modest inflation, as the consumer price index rose by 2.7 per cent and 2.6 per cent, respectively. The People's Bank of China began the period by reducing benchmark interest rates and bank reserve requirements in response to weak economic data. This was followed by a series of "mini" stimulus measures to accelerate infrastructure projects and ease housing sector restrictions. In late 2012, the Chinese Communist Party held its National Party Congress and presented the next generation of party leaders, led by President Xi Jinping, who instituted far-reaching reforms to transform China from a manufacturing and export-driven economy into one that is more consumption-based. Reflecting the weak economic environment, India's GDP

growth decelerated to 4.7 per cent in 2013 from 7.7 per cent in 2011. The consumer price index remained elevated, with a 10.1 per cent growth rate in 2013. To combat inflationary pressures, the Reserve Bank of India raised benchmark interest rates by 25 basis points to 8 per cent in the first quarter of calendar year 2014. Despite the rate hike, the Indian stock market began a strong rally on the basis of expectations that Narendra Modi would win national elections beginning in April 2014 to become Prime Minister and that the pro-business Bharatiya Janata Party would achieve a majority in Parliament. The election victory would allow the acceleration of much-needed economic reforms and stalled infrastructure projects. The export-dependent Republic of Korea also displayed the effects of a weak global economy, with GDP growing by only 2.3 per cent in 2012 and 3.0 per cent in 2013. In addition to weak global demand, a strong Korean won and a weak Japanese yen during the period under review further contributed to the slower export performance. The Bank of Korea responded by reducing the benchmark seven-day repo rate by a total of 75 basis points, to 2.5 per cent.

28. In Latin America, economic growth in Brazil slowed, while inflation in the country was rising; GDP growth plummeted to 1.03 per cent in 2012, followed by much subdued growth recovery of 2.49 per cent in 2013. Industrial production contracted further and exports declined. Government intervention, coupled with depressed prices of some commodities, have had an impact on investor sentiment. The Monetary Policy Committee lowered the Selic target rate by 375 basis points in 2012 to 7.25 per cent, and subsequently lifted it to 10 per cent by the first quarter of 2014 as inflation re-accelerated. After a period of growth recovery in 2010 and 2011, Mexico’s economy grew by 4.0 per cent in 2012, moderating to 1.1 per cent in 2013. The country benefited from the nascent United States upturn, and wages are regaining a competitive edge in relation to those in China. The Government advocates changes to boost economic growth, including opening up the State-controlled energy industry to more private investment. The Mexican economy is looking relatively strong compared with its neighbours. Banco de Mexico kept its benchmark interest rate unchanged at 4.5 per cent in 2012, but lowered it by 100 basis points during 2013.

29. In most countries of Eastern Europe, economic performance is for the most part entering a slower phase of growth following two years of economic recovery. The Russian Federation’s economic recovery subsided with a softer global demand for oil. GDP grew by 3.5 per cent in 2012 and by 1.3 per cent by 2013. The Central Bank lowered the interest rate by 25 basis points in the first quarter of 2012 but raised it back to 8.25 per cent in the third quarter. Turkey’s economic growth plunged to 2.2 per cent in 2012 from 8.9 per cent the previous year, as consumption and exports slowed. It since recovered to 4.0 per cent in 2013, as authorities in Turkey managed to stabilize inflation and the currency while keeping current deficit in check. In Poland, economic growth slowed to 2.08 per cent in 2012 and 1.48 per cent in 2013, hindered by softer private consumption and exports. In South Africa, GDP expanded by 2.98 per cent in 2012 and by 1.03 per cent in 2013. The employment level remained a significant challenge in South Africa. While the country’s current account deficit deteriorated to -6.00 per cent in 2012 and -5.85 per cent in 2013, the rand continued to weaken as labour market tensions intensified in the mining sector.

30. During the initial period of the biennium, yields in the global bond market were at historically low levels. Investors were concerned about the European

sovereign debt crisis, the stability of the financial system and weaker economic growth, particularly in China and the United States. By the end of 2012, the European Central Bank had alleviated tail risk by announcing measures to aid the European peripheral economies. However, bond investors remained risk averse, owing to concerns surrounding the United States budget and debt ceiling negotiations. Against this backdrop, global bond yields remained at historically low levels and in a tight range. During 2013, global bond yields rose as economic growth improved and the markets' attention turned to the anticipated announcement of changes in tapering of assets by the United States Federal Reserve. Towards the end of the fiscal biennium and as the Federal Reserve's tapering of asset purchases was under way, global bond yields fell. Geopolitical risks rose in some emerging market countries and economic growth slowed, particularly in North America and China, leading investors to adjust their outlook and unwind excess positions.

IV. Diversification

31. The Fund's policy of broad diversification of its investments by currency, type of asset classes and geographical area continues to be a reliable method of improving the risk return profile of the Fund's portfolio over long periods of time. The United Nations Joint Staff Pension Fund is unique among major pension funds in its commitment to diversifying its portfolio on a fully global basis.

32. After a review of the study on asset liability management and consultations with the Investments Committee, the policy asset mix is defined as the long-term strategic asset allocation. While the current policy asset mix is composed of 60 per cent equities, 31 per cent fixed income, 6 per cent real estate and 3 per cent cash and short-term investments, the Fund had decided to include alternative investments and real assets to further enhance the risk-return profile. The Fund is in a transitional period because establishing an investment exposure to those asset classes takes time. At the end of fiscal years 2013 and 2014, equities were above the policy allocation, at 64.7 per cent and 64.9 per cent, respectively. Bonds were kept below 31 per cent of the policy allocation. On 1 April 2012, the bond portfolio began at 28.8 per cent of the total portfolio and decreased to 24.2 per cent by the end of March 2014. Exposure to real assets increased from 4.5 per cent of the portfolio on 1 April 2012 to 4.9 per cent as at 31 March 2014. At the end of the fiscal biennium, the private equity asset class had 24 active partnerships across different strategies. The investment totals 1.2 per cent of the Fund. Cash and short-term investments started at 4.8 per cent on 1 April 2012 and ended the fiscal biennium on 31 March 2014 at 3.4 per cent. Based on the discussions during quarterly Investments Committee meetings, investment portfolios are continuously rebalanced in order to achieve the tactical asset allocation decided upon by the representative of the Secretary-General.

33. In terms of geographical diversification, the proportion of the total Fund invested in North America increased to 50.5 per cent in March 2014 from 45.7 per cent in March 2012. Investments in Europe decreased to 24.1 per cent from 25.4 per cent, while in Asia and the Pacific, the proportion of investments decreased to 14.9 per cent from 18.0 per cent. The rest of the portfolio was invested with international institutions. The equities portfolio was directly invested in 35 countries, and 4 supranational and regional institutions. The fixed-income portfolio was directly invested in 28 countries, plus 4 supranational and regional institutions as at 31 March 2014. At the end of the fiscal year 2014, the Fund had no direct exposures

to sovereign debt issued by Argentina, Cyprus, Greece, Ireland, Italy, Portugal or Spain. The Fund as a whole, through the various asset classes, invested in 39 different countries through direct investments and had indirect exposures through the externally managed funds and exchange traded funds.

34. In terms of currency diversification, the equities portfolio invested in 23 different currencies through direct investments, 55.4 per cent of which were in United States dollars and 44.6 per cent in non-United States dollar currencies. The fixed-income portfolio invested in 15 different currencies through direct investments, 46.3 per cent of which were in United States dollars and 53.7 per cent in non-United States dollar currencies. For the total Fund, direct investments constituted 55.9 per cent in United States dollars and 44.1 per cent in non-United States dollar currencies. For the fiscal biennium ended 31 March 2014, the Fund had a negative currency contribution of 1.2 per cent, outperforming the policy benchmark, which had a 1.4 per cent negative currency contribution. Areas of the Fund's investment are shown in tables I-III below.

Table 1
Market value of Fund investments by country or area as at 31 March 2014[a]

Country/area	*Amount (millions of United States dollars)*	*Percentage*
Australia	1 303.7	2.51
Austria	57.8	0.11
Belgium	102.7	0.20
Brazil	527.2	1.02
Canada	2 453.3	4.73
Chile	58.1	0.11
China	1 457.3	2.81
Colombia	39.5	0.08
Denmark	186.0	0.36
Estonia	43.0	0.08
Finland	324.6	0.63
France	1 883.2	3.63
Germany	2 328.9	4.49
Greece	2.1	0.00
India	315.3	0.61
Indonesia	82.0	0.16
Ireland	68.2	0.13
Israel	1.4	0.00
Italy	114.0	0.22
Japan	2 919.1	5.63
Malaysia	446.0	0.86
Mexico	642.7	1.24
Netherlands	412.8	0.80
New Zealand	34.4	0.07

Country/area	*Amount (millions of United States dollars)*	*Percentage*
Norway	447.8	0.86
Philippines	57.1	0.11
Poland	774.3	1.49
Republic of Korea	718.8	1.39
Russian Federation	184.4	0.36
Singapore	301.8	0.58
South Africa	234.1	0.45
Spain	481.1	0.93
Sweden	916.8	1.77
Switzerland	1 283.6	2.48
Thailand	85.1	0.16
Turkey	73.3	0.14
United Kingdom of Great Britain and Northern Ireland	3 291.7	6.35
United States of America	23 714.1	45.75
Africa region	190.8	0.37
Asia region	246.7	0.48
Emerging markets region	92.8	0.18
Europe region	418.1	0.81
International region	1 082.1	2.09
Middle East region	63.9	0.12
Multinational agencies region	1 376.1	2.65
Total fund	**51 837.5**	**100.00**

Note: Total value includes cash holdings by currency of country or region.

[a] The country of investment is generally based on domicile of issuer. Convertible securities are classified by the security into which they are convertible.

Table 2
Fund investments in developed markets[a]

	Equities		*Fixed income*	
Countries	*31 March 2012*	*31 March 2014*	*31 March 2012*	*31 March 2014*
Australia	✓	✓	✓	✓
Austria	✓	✓	✓	✓
Belgium	✓	✓	✓	✓
Canada	✓	✓	✓	✓
Denmark	✓	✓	–	–
Finland	✓	✓	✓	✓
France	✓	✓	✓	✓
Germany	✓	✓	✓	✓

Countries	*Equities*		*Fixed income*	
	31 March 2012	*31 March 2014*	*31 March 2012*	*31 March 2014*
Ireland	✓	✓	✓	✓
Israel	✓	✓	–	–
Italy	✓	✓	–	–
Japan	✓	✓	✓	✓
Netherlands	✓	✓	✓	✓
New Zealand	✓	✓	✓	✓
Norway	✓	✓	✓	✓
Portugal	–	–	–	–
Singapore	✓	✓	✓	✓
Spain	✓	✓	✓	✓
Sweden	✓	✓	✓	✓
Switzerland	✓	✓	✓	✓
United Kingdom	✓	✓	✓	✓
United States	✓	✓	✓	✓
Total	**21**	**21**	**18**	**18**

[a] Classification based on the Morgan Stanley Capital International (MSCI) index definition of developed markets.

Table 3
Fund equity and fixed-income investments in emerging markets

Country/area	*Equities*[a]		*Country/area*	*Fixed income*[a]	
	31 March 2012	*31 March 2014*		*31 March 2012*	*31 March 2014*
Argentina	–	✓	Angola	✓	✓
Bahrain	✓	✓	Argentina	✓	✓
Bangladesh	–	✓	Armenia	–	✓
Botswana	✓	✓	Azerbaijan	✓	✓
Brazil	–	✓	Bosnia and Herzegovina	✓	✓
Bulgaria	–	–	Botswana	–	–
Burkina Faso	–	✓	Brazil	✓	✓
Chile	✓	✓	Chile	✓	✓
China	✓	✓	China	✓	✓
Colombia	✓	✓	Colombia	–	✓
Congo	–	✓	Costa Rica	–	✓
Côte d’Ivoire	✓	✓	Côte d’Ivoire	✓	✓
Cyprus	–	–	Croatia	✓	–
Czech Republic	✓	–	Cyprus	–	–
Egypt	✓	✓	Czech Republic	✓	✓

Country/area	Equities[a] 31 March 2012	Equities[a] 31 March 2014
Estonia	–	✓
Ghana	✓	✓
Hungary	–	–
India	✓	✓
Indonesia	✓	✓
Jordan	–	✓
Kazakhstan	–	✓
Kenya	✓	✓
Kuwait	✓	✓
Kyrgyzstan	–	–
Lebanon	–	✓
Lithuania	–	–
Malawi	✓	✓
Malaysia	✓	✓
Marshall Islands	–	–
Mauritius	✓	✓
Mexico	✓	✓
Morocco	–	✓
Namibia	✓	✓
Nigeria	✓	✓
Oman	✓	✓
Pakistan	–	✓
Panama	–	–
Peru	–	–
Philippines	–	✓
Poland	–	✓
Qatar	–	✓
Republic of Korea	✓	✓
Romania	–	✓
Russian Federation	✓	✓
Rwanda	✓	✓
Saudi Arabia	✓	✓
Senegal	✓	✓
Sierra Leone	–	✓
Slovenia	–	✓
South Africa	✓	✓
Sri Lanka	–	✓
Thailand	✓	✓
Tunisia	✓	✓

Country/area	Fixed income[a] 31 March 2012	Fixed income[a] 31 March 2014
Democratic People's Republic of Korea	✓	✓
Dominican Republic	✓	✓
Ecuador	✓	✓
Egypt	✓	–
El Salvador	✓	✓
Estonia	✓	✓
Fiji	–	–
Georgia	✓	✓
Ghana	✓	✓
Grenada	✓	✓
Hungary	✓	–
India	✓	✓
Indonesia	–	–
Iraq	✓	✓
Jordan	✓	✓
Kazakhstan	✓	✓
Kenya	–	✓
Lithuania	✓	–
Malawi	–	–
Malaysia	✓	✓
Mauritius	–	–
Mexico	✓	✓
Mongolia	–	✓
Montenegro	✓	✓
Morocco	–	–
Mozambique	–	✓
Nepal	–	–
Nigeria	✓	✓
Oman	–	–
Paraguay	–	✓
Peru	–	–
Philippines	–	–
Poland	✓	✓
Qatar	–	–
Republic of Korea	–	✓
Republic of Moldova	–	–
Russian Federation	✓	✓
Rwanda	–	✓

Country/area	Equities[a] 31 March 2012	Equities[a] 31 March 2014
Turkey	✓	✓
Turkmenistan	–	–
Uganda	–	✓
Ukraine	–	–
United Arab Emirates	✓	✓
United Republic of Tanzania	✓	✓
Venezuela (Bolivarian Republic of)	–	–
Viet Nam	–	✓
Zambia	✓	✓
Zimbabwe	✓	✓
State of Palestine	✓	✓
Total	**34**	**53**

Country/area	Fixed income[a] 31 March 2012	Fixed income[a] 31 March 2014
Serbia	✓	✓
Seychelles	✓	✓
South Africa	✓	✓
Sri Lanka	–	–
The former Yugoslav Republic of Macedonia	✓	–
Trinidad and Tobago	✓	–
Tunisia	✓	✓
Turkey	✓	✓
Uganda	✓	✓
Ukraine	✓	✓
United Republic of Tanzania	–	✓
Uruguay	✓	✓
Venezuela (Bolivarian Republic of)	✓	✓
Viet Nam	–	–
Zambia	–	–
Cayman Islands	–	–
Total	**42**	**47**

[a] The classification used in the present table to identify countries/areas as "emerging markets" follows the established conventions of financial markets.

V. Investment returns

A. Total return

35. The market value of the Fund's assets had increased to $51,837 million on 31 March 2014, from $43,091 million on 31 March 2012, an increase of $8,746 million, or approximately 20.3 per cent. For the fiscal biennium 2014, the Fund returned 10.1 per cent, outperforming the policy benchmark return of 9.6 per cent by 46 basis points. The total investment return was 8.1 per cent for the fiscal year ended 31 March 2013 and 12.1 per cent for the fiscal year ended 31 March 2014. After adjustment by the United States consumer price index, these returns represent real rates of return of 6.6 per cent and 10.6 per cent, respectively.

36. During the fiscal biennium 2014, geopolitical uncertainties weighed on the global economy, but positive sentiments prevailed and the Fund posted steady gains. Developed equities posted positive returns, despite the announcement of "tapering" by the United States Federal Reserve (i.e., a reduction in its quantitative easing programme) and the fragile economic recovery in the eurozone. United States equity returned 12.6 per cent for the fiscal year 2013 and 22.7 per cent in 2014. Non-United States equity returned 9.1 per cent in 2013 and 12.4 per cent in 2014. Total equities

returned 10.8 per cent in 2013 and 17.5 per cent in 2014. United States bonds showed returns of 3.5 per cent in 2013 and -0.7 per cent in 2014. Non-United States bonds returned 2.7 per cent in 2013 and 2.9 per cent in 2014. Real estate performance was 7.4 per cent in 2013 and 13.1 per cent in 2014. Short-term investments returned 1.3 per cent in 2013 and -0.3 per cent in 2014.

37. The rates of return shown in the present report have been calculated by an outside master record-keeper, using a generally accepted method that was elaborated in the report on the management of the investments submitted to the Board at its thirty-fourth session (JSPB/34/R.10). 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.

B. Comparisons of investment returns

38. The Fund continues to be geographically the most widely diversified pension fund that maintains its accounts in the United States but has liabilities in several other currencies. At the end of the period under review, the Fund had more than 50 per cent of its assets in currencies other than the United States dollar.

39. During the fiscal year ended 31 March 2013, the Fund returned 8.1 per cent and outperformed the policy benchmark by 0.3 per cent. The policy benchmark comprises 60 per cent Morgan Stanley Capital International (MSCI) All Country World Index, 31 per cent Barclays Capital Global Aggregate Bond Index, 6 per cent National Council of Real Estate Investment Fiduciaries (NCREIF) Open-End Diversified Core Equity Index and 3 per cent Merrill Lynch 91-day Treasury bill. For the fiscal year ended 31 March 2014, the Fund outperformed the policy benchmark with the return of 12.1 per cent by 0.6 per cent. Over the past 15 years, the Fund achieved an annualized return of 6.2 per cent, outperforming 5.4 per cent return of the policy benchmark.

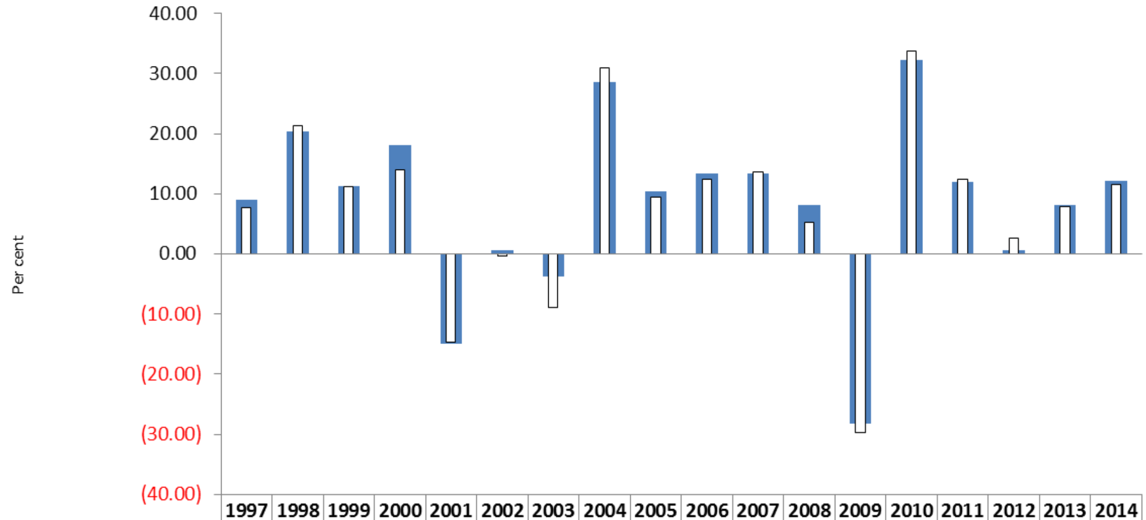
40. Over the past 15 years, the MSCI All Country Index had a total annualized return of 4.9 per cent, compared with the annualized return of 5.6 per cent achieved by the Fund's equity asset class. During the same period, the Barclays Capital Global Aggregate Index had annualized returns of 5.2 per cent, compared with the annualized return of 6.0 per cent achieved by the Fund's bond portfolio. As at 31 March 2014, the Fund had investments in 39 countries, 7 international and regional institutions and 23 currencies.

C. Long-term rates of return

41. The Fund met its 50-year long-term investment objective of a real return (United States adjusted for inflation on the basis of the consumer price index) of 3.9 per cent and in excess of 3.5 per cent by 40 basis points. Table 5 displays the annualized total rate of return and the inflation-adjusted return over the 50-year period for which data was available by the independent master record-keeper. Historically, equity markets had strong positive returns from 1993 to 2000 but declined sharply in the following three consecutive years. From 2004 to 2008, the equity markets had positive returns. Starting in the third quarter of 2008, the markets experienced volatility until the second quarter of 2012 and since then,

volatility has been below its historical average. For the fiscal years 2013 and 2014, the Fund's returns were 8.1 and 12.1 per cent, respectively, outperforming the policy benchmark by 0.3 per cent and 0.6 per cent, respectively.

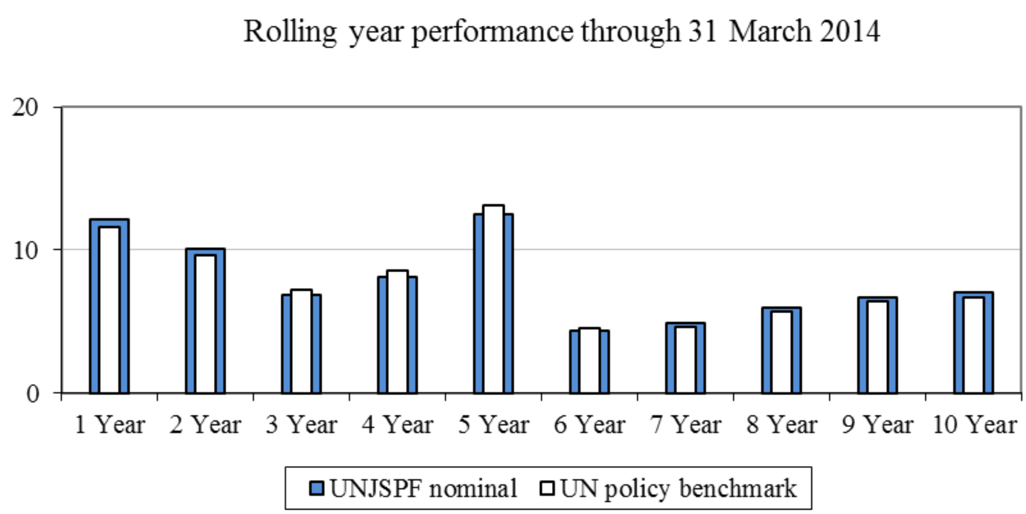
Figure I
United Nations Joint Staff Pension Fund long-term rates of return versus policy benchmark (by fiscal year)



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
UNJSPF return (fiscal year)	8.94	20.39	11.32	18.01	-14.97	0.66	-3.84	28.67	10.35	13.32	13.37	8.12	-28.33	32.23	11.89	0.59	8.1	12.1
UN policy benchmark return (fiscal year)	7.72	21.39	11.1	13.95	-14.75	-0.37	-8.87	30.94	9.36	12.33	13.55	5.22	-29.8	33.69	12.4	2.66	7.8	11.6

42. As figure II below illustrates, the Fund exceeded the policy benchmark in six out of the 10-year rolling periods until 31 March 2014.

Figure II
Rolling year performance through 31 March 2014



UNJSPF nominal return exceeds the 60/31 policy benchmark in 6 out of 10 periods

Table 4
Total Fund: annual total rate of return

(percentages based on market value 31 March 1962-31 March 2014)

	Equities				*Bonds*							
Year	*United States*	*Outside United States*	*Total*	*MSCI World Index*[a]	*United States*	*Outside United States*	*Total*[b]	*SBGWBI*[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	1997
1998	(12.18)	2.15	(4.74)	5.81	3.26	20.24	12.65	11.42	9.19	7.67	3.10	1988
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

	Equities				*Bonds*							
Year	*United States*	*Outside United States*	*Total*	*MSCI World Index*[a]	*United States*	*Outside United States*	*Total*[b]	*SBGWBI*[c]	*Real estate*	*Short term*	*Total Fund*	*Year*
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
2003	(23.9)	(21.7)	(23.1)	(24.2)	15.9	34.9	28.4	25.2	8.5	11.1	(3.8)	2003
2004	29.3	56.5	42.5	43.9	6.8	19.4	15.7	13.5	23.9	8.1	28.7	2004
2005	6.3	16.9	11.8	11.1	1.2	10.5	7.8	5.5	15.8	2.5	10.4	2005
2006	13.1	28.8	21.3	18.6	2.4	(4.4)	(2.8)	(2.0)	30.5	2.9	13.3	2006
2006				20.3[d] MSCI ACWI				(2.6)[e] BCGA			12.3* *60/31	2006
2007	9.4	20.6	15.7	16.4 MSCI ACWI	7.1	9.4	8.4	8.1 BCGA	24.0	5.5	13.4* *60/31	2007
2008	(0.6)	5.9	3.4	(0.7) MSCI ACWI	8.3	18.4	15.1	15.3 BCGA	9.0	8.3	8.1* *60/31	2008
2009	(34.6)	(45.1)	(41.0)	(42.7) MSCI ACWI	(1.4)	(12.6)	(8.6)	(4.9) BCGA	(22.9)	3.9	(28.3) *60/31	2009
2010	42.6	62.2	54.1	56.3 MSCI ACWI	5.9	16.7	10.8	10.2 BCGA	(17.4)	(2.7)	32.2	2010
2011	14.9	13.1	13.8	14.6 MSCI ACWI	5.4	10.3	8.2	7.1 BCGA	12.5	1.3	11.9	2011
2012	6.7	(7.3)	(1.2)	(0.2) MSCI ACWI	6.9	3.1	4.6	5.3 BCGA	10.8	1.2	0.6	2012
2013	12.6	9.1	10.8	11.2 MSCI ACWI	3.5	2.7	2.9	1.3 BCGA	7.4	1.3	8.1	2013
2014	22.7	12.4	17.5	17.2 MSCI ACWI	(0.7)	2.9	1.3	1.9 BCGA	13.1	(0.3)	12.1	2014

[a] MSCI indices provide exhaustive equity market coverage for more than 75 countries in the developed, emerging and frontier markets, applying a consistent index construction and maintenance methodology.

[b] The proportion of bonds held outside the United States was not significant prior to 1975.

[c] Citigroup World Government Bond Index (CWGBI) consists of 18 major bond markets. Effective 2006, the Bond index name was changed to Barclays Capital Global Aggregate (BCGA).

[d] MSCI All Country World Index (MSCI ACWI) consists of 44 country indices comprising 23 developed and 21 emerging market country indices.

[e] Barclays Capital Global Aggregate (BCGA). Effective 3 November 2008, the bond index name changed from Lehman Brothers Global Aggregate to BCGA.

Table 5
Total fund: annual rates of return based on market value
(percentages for selected periods ended 31 March 2014)[a]

	2014	2013	2012	2011	2010	5 years through 2014	10 years through 2014	15 years through 2014	20 years through 2014	25 years through 2014	50 years through 2014
United States equities	22.7	12.6	6.7	14.9	42.6	19.5					
Equities outside the United States	12.4	9.1	-7.3	13.1	62.2	5.9					
Total equities	**17.5**	**10.8**	**-1.2**	**13.8**	**54.1**	**17.7**	**8.0**	**5.6**	**8.2**	**8.5**	
United States bonds	-0.7	3.5	6.9	5.4	5.9	4.2					
Bonds outside the United States	2.9	2.7	3.1	10.3	16.7	7.0					
Total bonds	**1.3**	**2.9**	**4.6**	**8.2**	**10.8**	**5.5**	**4.6**	**6.0**	**6.2**	**7.3**	
Real estate related	13.1	7.4	10.8	12.5	-17.4	4.6	7.0	8.9	8.8	7.2	
Short-term investments	-0.3	1.3	1.2	1.3	-2.7	0.1	2.4	3.5			
Total Fund (United States dollars)[b]	**12.1**	**8.1**	**0.6**	**11.9**	**32.2**	**12.5**	**7.1**	**6.2**	**7.8**	**8.2**	**8.3**
Inflation-adjusted return (based on United States consumer price index)	**10.6**	**6.6**	**-2.1**	**9.2**	**29.2**	**10.4**	**4.7**	**3.8**	**5.4**	**5.6**	**3.9**

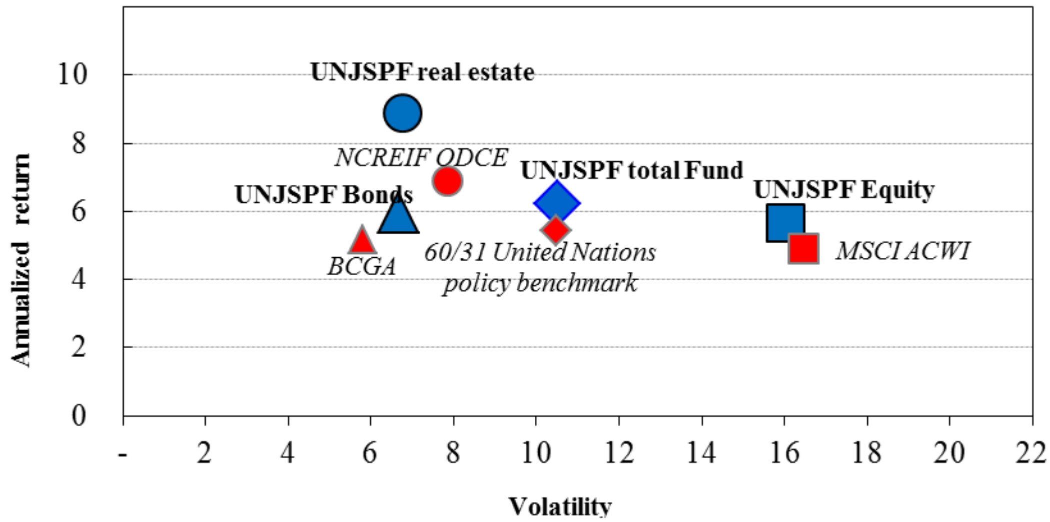
[a] Best available data through the 50-year period from the independent master record-keeper.
[b] The base currency is the United States dollar.

D. Risk return profile

43. Over the past 15 years, the Fund's annual return of 6.2 per cent was higher than the benchmark's return of 5.4 per cent. The Fund's volatility of 10.5 per cent was in line with that of the benchmark's volatility. The Fund had a well-diversified portfolio that includes all major asset classes and securities.

44. Within asset classes, the Fund's equity portfolio return of 5.6 per cent outperformed the MSCI All Country World Index return of 4.9 per cent and the Fund's equity portfolio had a better risk profile (16.0 per cent) compared to the MSCI All Country World Index (16.4 per cent). The bond portfolio, with 15-year return of 6.0 per cent, outperformed the Barclays Capital Global Aggregate Index return of 5.2 per cent but had higher volatility (6.7 per cent) compared to the Barclays Capital Global Aggregate Index (5.8 per cent).

Figure III
UNJSPF 15-year risk/return profile versus indices through 31 March 2014
(percentage)



VI. Investments in developing countries

45. The Fund continues to make efforts to invest in developing countries to the extent that this has been consistent with the interests of participants and beneficiaries. Direct and indirect investments in developing countries amounted to $5.2 billion on 31 March 2014, a decrease of approximately 9.7 per cent from $5.8 billion at cost on 31 March 2012.

46. The Investment Management Division continues to explore possible investment opportunities in developing countries. Investment visits were undertaken in Africa, Asia, Latin America and Eastern Europe during the period under review. The Fund continues to review its exposure in these markets in search of suitable investment instruments while taking into account the overall investment criteria and strategy of the Fund.

Table 6
Development-related investments:[a] book value[b] as at 31 March 2012 and 31 March 2014
(in thousands of United States dollars)

	Book value		*Market value*	
	2012	*2014*	*2012*	*2014*
Africa				
South Africa	293 376	104 628	394 822	213 160
Regional funds	131 295	172 076	118 606	170 912
Subtotal	**424 671**	**276 704**	**513 428**	**384 072**
Development institutions	79 203	54 487	91 299	63 921
Subtotal, Africa	**503 874**	**331 191**	**604 727**	**447 993**

	Book value		*Market value*	
	2012	*2014*	*2012*	*2014*
Asia				
China	1 130 676	1 054 029	1 377 518	1 374 476
India	287 467	237 494	335 822	295 290
Indonesia	–	87 624	–	81 981
Malaysia	563 941	372 182	657 997	405 552
Republic of Korea	685 006	571 425	917 559	708 325
Singapore	334 497	217 795	383 485	264 924
Thailand	–	84 480	–	85 146
Regional funds	117 263	149 350	202 198	211 852
Subtotal	**3 118 850**	**2 774 379**	**3 874 579**	**3 427 546**
Development institutions	30 173	55 912	36 775	57 949
Subtotal, Asia	**3 149 023**	**2 830 291**	**3 911 354**	**3 485 495**
Europe				
Turkey	52 691	42 407	82 076	41 565
Regional funds	–	–	–	–
Subtotal	**52 691**	**42 407**	**82 076**	**41 565**
Development institutions	–	–	–	–
Subtotal, Europe	**52 691**	**42 407**	**82 076**	**41 565**
Latin America				
Brazil	590 677	444 932	768 176	482 238
Chile	47 692	47 649	69 880	58 138
Colombia	2 951	44 519	6 832	39 413
Mexico	472 501	445 295	646 448	539 695
Venezuela (Bolivarian Republic of)	19 965	–	25 316	–
Regional funds	–	–	–	–
Subtotal	**1 133 786**	**982 395**	**1 516 652**	**1 119 484**
Development institutions	98 587	19 965	107 778	25 421
Subtotal, Latin America	**1 232 373**	**1 002 360**	**1 624 430**	**1 144 905**
Other development funds				
Inter-American Development Bank	–	65 441	–	66 932
International Bank for Reconstruction and Development	526 598	464 039	597 238	503 605
International Finance Facility for Immunization	24 406	24 406	27 120	24 344
iShares MSCI Emerging Markets	–	47 143	–	45 760
iShares MSCI Frontier 100 Index	–	50 361	–	60 030

	Book value		Market value	
	2012	2014	2012	2014
European Investment Bank/European Bank for Reconstruction and Development	297 804	342 898	331 951	363 185
Fiduciary Emerging Markets Bond Fund	26 902	26 902	40 870	47 004
Emerging Market Middle East Fund	15 145	34 002	16 871	63 892
Subtotal, other development funds	**890 855**	**1 055 192**	**1 014 050**	**1 174 752**
Total	**5 828 816**	**5 261 441**	**7 236 637**	**6 294 710**

[a] Book values and market values exclude cash holdings for all countries and regions.
[b] Effective 1 January 2012, all investments of the Fund are designated at fair value through surplus and deficit in accordance with the International Public Sector Accounting Standards (IPSAS).

VII. Conclusion

47. The Fund had been achieving the long-term investments objective both in the actuarial requirement of 3.5 per cent real rate of return and the relative performance against the policy benchmarks in the past 10 years. In seeking potential enhancement of investment returns and further diversification, the Investment Management Division has continued to pursue opportunities for investments in private equity and other alternative investments, infrastructure, and timberlands. Because of stronger growth potential, further diversification opportunities in the emerging markets and the frontier markets are being carefully reviewed while considering the four investment criteria; safety, profitability, liquidity and convertibility. RiskMetrics has also been implemented, with portfolio risks being monitored in a comprehensive and systematic manner. Despite the Fund facing market uncertainties during this phase of the global economic recovery, with the support of additional staff and investment tools during the biennium, the Division will be in a position to safeguard the Fund’s assets and build a stronger foundation for future years.