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Proposed programme budget for the biennium 2018–2019

United Nations Joint Staff Pension Fund

Twenty fourth report of the Advisory Committee on Administrative and Budgetary Questions on the proposed programme budget for the biennium 2018–2019

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the United Nations Joint Staff Pension Board on the administrative expenses of the United Nations Joint Staff Pension Fund (A/72/383), the report of the Secretary-General on the administrative and financial implications arising from the report of the United Nations Joint Staff Pension Board (A/C.5/72/2), the report of the Board of Auditors on the financial report and audited financial statements of the United Nations Joint Staff Pension Fund for the year ended 31 December 2016 (A/72/5/Add.16) and the report of the Secretary of the United Nations Joint Staff Pension Board on the implementation of the recommendations of the Board of Auditors contained in its above-mentioned report (A/72/364). In addition, the Advisory Committee had before it a note by the Secretary-General on the membership of the Investments Committee.

2. During its consideration of the above reports and the note by the Secretary-General, the Advisory Committee met with the Chair of the Pension Board, the Representative of the Secretary-General for the investment of the assets of the Pension Fund, representatives of the Fund's secretariat and members of the Board of Auditors, who provided additional information and clarification, concluding with written responses received on 10 October 2017.

3. The report of the Pension Board contains the budget estimates and the performance report for the biennium 2016–2017; budget estimates for the biennium 2018–2019, including recommendations thereon (A/72/383, para. 189); and an additional recommendation to supplement contributions to the Emergency Fund (ibid.). The report also contains a summary of follow-up action taken to implement the requests and recommendations of the Advisory Committee and the Board of

Auditors (ibid., sect. VI). The comments and observations of the Committee are contained in sections II and III below.

4. The overview to the report of the Pension Board indicates that, as at 31 December 2016, there were 23 member organizations of the Fund, with a combined total of 203,050 participants (128,262 active participants and 74,788 retirees and other beneficiaries). The value of the net assets of the Fund stood at $54.5 billion at the end of 2016 and annual benefit payments amounted to nearly $2.5 billion (A/72/383, overview and para. 9).

II. Revised budget estimates and performance report for the biennium 2016–2017

Overview

5. In its resolutions 70/248 and 71/265, the General Assembly approved appropriations for the biennium 2016–2017 totalling $180,055,400, comprising administrative costs ($91,378,400), investment costs ($84,808,700), audit costs ($2,902,700) and Board expenses ($965,600). Of that amount, $158,190,100 is chargeable directly to the Fund and $21,865,300 is the share of costs borne by the United Nations. In addition, resources amounting to $164,700 were authorized for extrabudgetary costs and funded by a number of member organizations (A/72/383, para. 7).

6. In its report, the Pension Board anticipates a reduction in the budget estimates for the biennium 2016–2017 of $5,091,100, or 2.8 per cent, compared with the appropriation for the same period. Total expenditure for 2016–2017 is now estimated at $174,964,300, comprising administrative costs ($96,543,600), investment costs ($74,630,400), audit costs ($2,824,700) and Board expenses ($965,600). The share of the expenditure to be borne by the United Nations amounts to $20,373,300 (see A/72/383, table 1).

7. The proposed reduction is attributable to reduced requirements for investment costs in the amount of $10,178,300 primarily owing to: (a) a reduction of $4,434,800 under contractual services due to the reduced costs of non-discretionary advisory services and custodial services; and (b) underexpenditure under posts ($3,326,000) and other staff costs ($1,662,300) as a result of delayed recruitment. These reductions will be partially offset by overexpenditures, estimated at $5,165,200, for the administration of the Fund, which are attributable primarily to: an increase of $8,556,900 under contractual services for the “end-to-end review”, the call centre and other projects, as well as consultancy services related to the Integrated Pension Administration System (IPAS) and; an increase of $3,415,600 under other staff costs related to positions funded through the general temporary assistance and overtime. Detailed information on the variances in expenditure is provided in the report of the Pension Board (A/72/383, paras. 9–43).

8. In terms of staffing resources, the Pension Fund had a complement of 271 posts during the biennium 2016–2017, including 186 posts in the Fund secretariat and 85 posts in the Investment Management Division (see A/72/383, table 5). Upon enquiry, the Advisory Committee was informed that the average vacancy rate from January 2016 to September 2017 was 7.9 per cent in the Fund secretariat and 20.7 per cent in the Investment Management Division. As at 2 October 2017, these rates were 8.6 per cent and 12.9 per cent, respectively. **While noting the recent progress in recruitment in the Investment Management Division, the Advisory Committee reiterates its concern about the high number of vacant posts in the**

Pension Fund and urges the Fund to fill all vacant posts expeditiously (see also A/70/7/Add.6, chap. II, para. 10, and A/71/621, para. 14 (c)).

Financial situation

9. The report of the Board of Auditors (A/72/5/Add.16) indicates that from 2015 to 2016 the following key changes had an impact on the financial situation of the Pension Fund:

- The number of participants increased from 126,892 to 128,262;
- The number of beneficiaries increased from 71,474 to 74,788;
- The net assets for benefits increased from $52.13 billion to $54.49 billion;
- The real rate of return on investment increased from negative (-) 1.7 per cent to 3.1 per cent;
- Foreign currency accounting losses decreased from $1.49 billion to $0.68 billion.

10. With regard to the foreign currency losses, the report of the Board of Auditors indicates that from 2013 to 2016, cumulative accounting losses attributable to exchange rate movements totalled $4.68 billion (A/72/5/Add.16, chap. II, para. 59). In previous audits, the Board of Auditors had raised concern over the foreign currency accounting losses and recommended employing suitable procedures and tools to mitigate them. In the context of the report for 2016, the Pension Fund informed the Board of Auditors that an expert study would be conducted, which would include a review of foreign currency exposures and related management tools. Upon enquiry, the Advisory Committee was informed that the first stage of the currency study had been completed in July 2017 and presented to the Pension Board. The study is scheduled to be finalized before the end of 2017.

11. The Advisory Committee was informed by the Board of Auditors, upon enquiry, that 42.25 per cent of the foreign currency losses incurred by the Pension Fund in the last three years were realized losses. In response, the Investment Management Division confirmed to the Committee that in 2016 the Fund incurred $679.9 million in foreign currency losses, comprising $776.4 million in realized losses and an unrealized gain of $96.5 million. The Management Division also indicated that, as at 31 December 2016, approximately 61 per cent of the Fund's assets were invested in United States dollar-denominated assets, and approximately 39 per cent were invested in non-United States dollar denominated assets. According to the Management Division, while the year-to-year impact of currency volatility could be significant, currency accounting gains and losses tended to offset each other over time, with minimal long-term impact on the financial position of the Fund. **The Committee notes that the Investment Management Division and the Board of Auditors have a difference of opinion with respect to whether or not foreign currency movements should be an indicator of the Fund's investment performance and trusts that an agreement will be reached so as to facilitate future analysis of the financial situation of the Fund.**

12. **The Advisory Committee also recalls that the General Assembly, in its resolution 71/265, expressed concern regarding the foreign exchange losses and urged the Secretary-General to employ suitable procedures and tools to mitigate foreign exchange losses as well as to develop an internal mechanism to monitor, evaluate and manage losses or gains owing to foreign exchange. The Committee looks forward to reviewing the results of the ongoing review in the context of its consideration of the next annual budget report.**

13. With regard to the performance of the investments of the Pension Fund as at 31 August 2017, the Advisory Committee was informed that the real rate of return for a one-year period was 9.9 per cent and that the Fund's market value of assets amounted to $61.2 billion as at 29 September 2017.

14. **While noting the recent improvement of the performance of the Pension Fund, the Advisory Committee recalls that the General Assembly, in its resolution 71/265, had expressed concern at the near-term underperformance of investments for the prior period, emphasized the importance of the Fund meeting its target annual real rate of return of 3.5 per cent over the long term and requested the Secretary-General to make all efforts to improve the investment performance of the Fund.**

Actuarial valuation

15. The report of the Board of Auditors indicates that the audit found anomalies in the data supplied by the Pension Fund to the actuaries with regard to the number of participants and beneficiaries in 2015, which led to an unreliable actuarial valuation. Once this situation had been identified, the Pension Fund decided not to use the actuarial valuation and instead to roll forward the previous actuarial valuation from 31 December 2013. The Board of Auditors recommended that the Pension Fund strengthen its internal control procedure to ensure the accuracy of data before sending them for the actuarial valuation and carry out a fresh actuarial valuation as at 31 December 2017 (A/72/5/Add.16, chap. II, para. 19). Upon enquiry, the Advisory Committee was informed that the cost of the actuarial valuation amounted to $287,751 and that the anomalies in census data provided to the consulting actuary were related to the transition from the legacy information technology system to IPAS. **The Committee concurs with the recommendation of the Board of Auditors. Furthermore, the Committee expects that additional care will be taken in the future so that accurate data is provided for the purposes of future actuarial valuations.**

Delays in benefit processing

16. The Board of Auditors also notes that, for the period ending 31 December 2016, the Fund processed 27 per cent of cases within the benchmark of 15 business days (compared with 8.2 per cent in 2015).[1] The Board analysed the data on benefits processing provided by the Fund secretariat and found that, in 2016, a total of 10,291 cases had been processed for benefits payment (A/72/5/Add.16, chap. II, para. 94, and table II.1). The table below shows the time taken to process the cases after the receipt of documents.

Table 1
Time taken for the processing of benefits in 2016, after receipt of all documents

Time taken for processing benefits	*Number of cases processed*	*Percentage of total cases processed*
Less than 15 business days	2 780	27.01
15 business days–1 month	614	5.96
1–2 months	2 121	20.61
2–3 months	1 670	16.23

[1] See A/71/5/Add.16, table II.1. The benchmark of 15 business days is contained the United Nations Joint Staff Pension Fund strategic framework for the period 2016–2017, sect. IV.A, component 2, indicator of achievement 1.1: "increased percentage of withdrawal settlements, retirement benefits and other benefits processed within 15 business days" (see A/70/325, table 11).

Time taken for processing benefits	*Number of cases processed*	*Percentage of total cases processed*
3–6 months	2 160	20.99
6 months–1 year	613	5.96
More than 1 year	333	3.24
Total	**10 291**	**100**

17. The Advisory Committee was informed, upon enquiry, that the processing times have been improving since the beginning of 2016. According to the Pension Fund secretariat, as of August 2017, 63.7 per cent of the initial separations supported by complete files were processed within 15 business days, which is the benchmark set by the Fund for all cases for the period 2016–2017. Information on the measures taken to reduce the delays in the payment of benefits is contained in the report of the Pension Board (A/72/383, sect. VI). The Committee was further informed, upon enquiry, that the Fund processes different types of benefits, including retirement benefits, disability benefits, survivor's benefits and child benefits. According to the Board of Auditors, as the complexity of each type of benefit is different, the time and resources needed to process each type of benefit varies, and that the Board of Auditors therefore recommended that the Fund prescribe a time frame for processing each type of entitlement or benefit.

18. **The Advisory Committee recalls that the General Assembly, in its resolution 71/265, expressed serious concern at the continued delays in the receipt of payments by some new beneficiaries and retirees of the Pension Fund, stressed again the need for the Pension Board to take appropriate steps to ensure that the Fund addresses the causes of such delays and in this regard requested an update in the context of the next report of the Pension Board.**

Overall performance

19. Upon enquiry regarding the overall performance of the Pension Fund in the current biennium, the Board of Auditors informed the Advisory Committee that the performance of the Fund from 2015 to 2016, both in investment management and benefits processing, has improved. However, the Board of Auditors considers that the Investment Management Division should further improve its performance in areas such as risk management and the management of foreign currency losses, while the Fund secretariat should improve the timeliness of benefits processing, the client grievance system and the coordination with participating entities. Upon enquiry, the Committee was informed that, owing to the areas of concern mentioned above, the Board of Auditors cannot consider the overall performance of the Fund as fully satisfactory (see also A/72/5/Add.16, chap. II). **The Committee expects that immediate action will be taken to address the issues raised by the Board of Auditors. Information on differences in opinion between the Fund and the Board of Auditors regarding these issues should be provided to the General Assembly at the time of its consideration of the present report.**

III. Proposed budget for the biennium 2018–2019

A. Overview

20. The report of the Pension Board indicates that the resource requirements for the Pension Fund in 2018–2019 amount to $194,664,800 (before recosting), which represents an increase of $14,444,700, or 8 per cent, compared to the appropriation for 2016–2017. The requirements comprise administration costs ($105,018,900), investment costs ($85,586,400), audit costs ($2,929,200), Pension Board expenses

($965,600) and extrabudgetary costs ($164,700) (see A/72/383, para. 80 and table 3). In view of the anticipated reduction of the budget estimates for 2016–2017 (see para. 6 above), the Advisory Committee considers that additional efforts should be made to improve the precision of future budget proposals by basing requests for resources on real needs and by taking into account prior actual expenditure levels to the greatest extent possible.

21. The overall resources estimate of $195,230,800, after recosting, would be apportioned between the Fund ($172,348,900) and the United Nations ($22,881,900),[2] under the relevant cost-sharing arrangement. The share of the regular budget would amount to $14,552,900 and the balance of $8,329,000 would be reimbursed to the United Nations by the United Nations Development Programme (UNDP) and the United Nations Children's Fund (UNICEF) (A/C.5/72/2, para. 7).

B. Administration costs

22. The proposed requirements for the administration of the Pension Fund amount to $105,018,900, representing an increase of $13,640,500, or 14.9 per cent, compared with the appropriation for 2016–2017.

Post requirements

23. The proposed requirements for posts of $49,705,500, representing an increase of $3,451,800, or 7.5 per cent, compared with the appropriation for 2016–2017, would provide for the continuation of 186 posts, the establishment of nine new posts (1 D-1, 2 P-5, 3 P-4 and 3 P-3) and the reclassification of two posts (P-4 to P-3 and P-3 to P-4). The proposal regarding these new and reclassified posts is summarized in table 2 below (see also A/72/383, table 6).

Table 2
New posts requirements for the administration of the Pension Fund

Section	*Action*	*Post*	*Number*	*Category*
Programme of work				
Client services and outreach	New post	Chief of Services	1	D-1
	New post	Senior Public Information Officer	1	P-5
	New post	Programme Officer	1	P-4
	New post	Benefits Officer	2	P-3
Financial services	New post	Chief of Section, Accounts	1	P-5
	New post	Chief of Unit, Payroll	1	P-4
Operations	New post	Deputy Chief of Section, Pension Entitlements	1	P-4
	New post	Benefits Officer	1	P-3
Programme support				
Information Management Systems Service	Reclassification	Administrative Officer	1	P-3 to P-4
Human Resources Unit[a]	Reclassification	Human Resources Officer	1	P-4 to P-3

[a] Includes reclassification of Executive Officer post to Senior Human Resources Officer (P-5 to P-5).

[2] The United Nations includes the Secretariat of the United Nations and the funds and programmes of the United Nations system.

24. The report of the Pension Board indicates that, in accordance with the recommendations following the "whole office" review carried out in 2016, the Pension Fund intends to separate Client Services from the Office of Operations in New York. The former section, which would be renamed the "Client Services and Outreach", would provide for a more focused service to better address a growing, ageing and more geographically dispersed clientele. In addition, the Pension Fund intends to centralize the management of its client services activities in order to better ensure consistent servicing at its New York and Geneva offices. The Pension Board indicates that client services in New York and Geneva must be in position to respond to an estimated 55,000 general enquiries by mail or email and an estimated 35,000 phone calls during the biennium 2018–2019. Upon enquiry, the Advisory Committee was informed that in 2016 the Fund had established a call centre in New York and that it has developed a plan for the extension of the call centre to other locations in order to provide continuous support across different time zones. Five additional new posts for the proposed Client Services and Outreach are requested to implement to the proposed changes (1 D-1, 1 P-5, 1 P-4 and 2 P-3).

25. To head this entity, the Pension Fund proposes to establish a post of Chief of Services at the D-1 level in New York. According to the report of the Pension Board, this post is needed to improve the reporting link between the New York and Geneva offices. The Chief of Services would be responsible for the management and direction of the Fund's client services and outreach activities in New York and would also be responsible for the work of the proposed regional client service centres (see A/72/383, paras. 112 and 113, and para. 28 below).

26. It is also proposed that a post of Senior Public Information Officer (P-5) be established in the new Client Services and Outreach in New York. According to the supplementary information provided to the Advisory Committee, the incumbent of the post is expected to take the lead in all of the Pension Fund's communications activities and to plan, coordinate and take part in an expanded range of communications strategies and initiatives for the Fund at large, while keeping the Fund updated with respect to modern communications tools.

27. The Pension Board also proposes to establish a post of Programme Officer (P-4) in New York. The supplementary information provided indicates that the incumbent would be responsible for the development, implementation, maintenance and evaluation of various operational areas of the Pension Fund's client services and would serve as a coordinator and technical focal point for the Fund's call centre.

28. The report of the Pension Board indicates that a large number of clients of the Pension Fund live in regions of the world that are not in close proximity to the Fund's New York and Geneva offices. In order to reach and provide full client services for all of its constituents, the Fund proposes to set up two small regional client service centres (one in East Africa and one in Asia), to be served by one new post of Benefits Officer (P-3) in each location (A/72/383, para. 113). The supplementary information indicates that the incumbents of the posts would serve as focal points for all pension matters in the duty stations and oversee and coordinate communications with all clients in the respective duty stations regarding day-to-day activities and the application of the Regulations and Rules of the Fund and its pension adjustment system. Upon enquiry, the Advisory Committee was informed that, in 2016, the Fund set up a liaison office, as a pilot project, in Nairobi. A Benefits Officer (P-3) was temporarily redeployed to Nairobi to provide outreach services to beneficiaries and participants in the region and to support the work of human resources and payroll units for the Nairobi-based United Nations entities with regard to pension matters.

29. The Advisory Committee considers that the focus of the Pension Fund should be primarily on improving its operations, including the speed of benefits processing (see para. 18 above) and responsiveness to client queries, while improvement to outreach and communications is a less pressing order of business. In the view of the Committee, if benefits are processed accurately and in a timely manner, the need for resources for client services, which is linked to the number of inquiries, should decline together with the need for outreach. **The Committee is not convinced, in particular, that the proposed improvements in the area of client services require the establishment of a post of Chief of Services at the D-1 level in New York. The Committee notes that in carrying out their day-to-day activities, the staff working in the area of client services in Geneva would remain under the authority of the Chief of the Geneva Office (D-1). Similarly, the Committee is not convinced that the communications activities of the Fund require the service of a dedicated senior official. The Committee therefore recommends against the establishment of a Chief of Services post for the Client Services and Outreach (D-1) and a Senior Public Information Officer post (P-5). Non-post resources should be adjusted accordingly.**

30. **With regard to the two proposed posts of Benefits Officer (P-3) to be created for the new regional client service centres, the Advisory Committee considers that further analysis regarding the proposed decentralized activities of the Pension Fund, including the planned call centres, should be included in the next report of the Pension Board before the creation of more than one new regional centre. The Committee therefore recommends against the establishment of one post of Benefits Officer (P-3) in the proposed regional client service centre in Asia. The Committee recommends in favour of the creation of a position of Benefits Officer (P-3) funded through general temporary assistance in the existing pilot service centre in Nairobi. Non-post resources should be adjusted accordingly.**

31. **The Advisory Committee recommends the approval of five of the proposed new posts, including one post in the Client Services and Outreach, two posts in the Financial Services and two posts in the Office of Operations.**

32. In terms of vacancy rates, the Advisory Committee was informed, upon enquiry, that vacancy rates of 9 per cent for staff in the Professional and higher categories and 5 per cent for General Service and related categories have been used by the Fund for both continuing and new posts in 2016–2017. The average vacancy rate in the Fund secretariat was 7.9 per cent up to September 2017. **The Committee recalls that the General Assembly, in its resolution 70/248, has already approved the establishment of 14 new posts for the Fund secretariat. In view of the average timeline for recruitment and onboarding against new posts and consistent with the budgetary methodology applied to all sections of the United Nations regular budget, the Committee recommends that a vacancy rate of 50 per cent be applied to the resource requirements for all new posts.**

Non-post requirements

33. The proposed non-post requirements for the administration of the Pension Fund amount to $55,313,400, representing an increase of 22.6 per cent compared with the appropriation for the biennium 2016–2017. The main proposed increases by object of expenditure are as follows:

(a) Under other staff costs: an increase of $4,800,600, or 59.7 per cent, would provide for 46 positions funded under general temporary assistance (1 P-5, 1 P-4, 10

P-3 and 34 General Service), compared with 43 positions in 2016–2017.[3] According to the Pension Board, those positions would create a flexible temporary workforce to address surges in volume and cyclical operational peaks or unforeseen events;

(b) Under contractual services: an increase of $4,310,900, or 25.6 per cent, would provide mostly for (i) the Vitech V3 enhancements project,[4] (ii) maintenance and production support, (iii) actuarial services and technical studies on pension remuneration and administration, and (iv) information technology services;

(c) Under general operating expenses: an increase of $722,900, or 4.3 per cent, is attributable mainly to increases in rental and maintenance costs for premises and equipment.

Integrated Pension Administration System

34. The Advisory Committee recalls that, in August 2015, the Pension Fund launched the Integrated Pension Administration System (IPAS), aimed primarily at improving its operations through automation. In its previous report, the Board of Auditors noted that IPAS was a complex and large-scale operational and technological initiative. The estimated cost of the project was $26.2 million in 2015, representing an increase of approximately $3.5 million compared with the approved amount of $22.7 million. At that time, the auditors identified five main issues and recommended that the Fund focus on two of them: (a) resolving the issues of data migration; and (b) framing key performance indicators in accordance with functional requirements for assessing the accuracy and timeliness of IPAS outcomes. The Committee concurred with the recommendations of the Board (see A/71/5/Add.16, chap. II, para. 99, and A/71/621, para. 18).

35. In its report, the Board of Auditors observed the following issues regarding the implementation of IPAS: (a) manual interventions were required at many steps in the processing of a case; (b) the input controls were not enforced; (c) there was limited utility of the employer self-service and member self-service modules; (d) there was incomplete migration of the data; and (e) there was a lack of inbuilt management information system reports. The Board recommended that the Pension Fund: explore the possibility of further automating various steps in benefits processing; build input controls to ensure standardized information in IPAS; enhance the functionalities of the member self-service and employer self-service modules; and resolve data issues resulting from the migration to IPAS (see A/72/5/Add.16, chap. II, para. 92).

36. The Advisory Committee was informed, upon enquiry, that the resources requested for the Vitech 3 enhancements project, in the amount of $2.6 million, were aimed at improving IPAS. The enhancements would include: (a) automatic distribution of separation requests, additional details on the processing status of cases, automated follow-up of required documents, electronic forms and new signature verification software; (b) the introduction of a customer relationship management feature; and (c) enhancements to the file reconciliation process, automated reports and enhancements to an "employer self-service" portal. The Committee was also informed, upon enquiry, that the expected efficiency gains in the biennium 2018–2019 resulting from the implementation of those enhancements would include: shorter processing time, more timely and accurate reporting, a

[3] In its resolution 71/265, the General Assembly decided to establish nine additional temporary positions for the period from 1 January to 31 December 2017.

[4] Vitech V3 is administration software that provides automated solutions relating to various services, including enrolment, payroll reporting, contributions processing, benefits calculation and benefits payroll. V3 for Retirement is described by its vendor as a solution suitable for public pension funds.

reduction in the number of phone enquiries, the possibility of "going paperless", integration of data, and improved self-service functionalities. **The Committee expects that the proposed enhancements will resolve the issues observed by the Board of Auditors in the implementation of the Integrated Pension Administration System so that reports will be accurate in the future. Furthermore, the Committee will keep the matter of the efficiencies attributable to IPAS under review (see also para. 19 above).**

Cost-sharing agreement

37. The Advisory Committee was informed, upon enquiry, that pursuant to article 15 of the Regulations, Rules and Pension Adjustment System of the United Nations Joint Staff Pension Fund, all expenses of the Pension Fund are to be met by the Fund, and, in accordance with article 4 of the Regulations, each member organization of the Fund is required to provide its own staff pension committee. However, on the basis of article 8 of the Regulations and a long-standing cost-sharing agreement updated in 1998, the Fund performs the role of United Nations Staff Pension Committee. The Fund is reimbursed for performing that role, which covers one third of certain administrative costs, including staffing, overtime, information technology, office space and audit. In addition, the United Nations absorbs the cost of certain other services provided to the Fund, including various functions relating to human resources, procurement and supply, as well as telecommunications costs. The Committee was also informed, upon enquiry, that the value of the services exchanged by the United Nations and the Fund has not been comprehensively assessed. **The Committee recommends that the General Assembly request the Secretary-General to prepare a comprehensive analysis of the services provided by the Pension Fund on behalf of the United Nations and vice-versa with a view to putting in place a cost-sharing agreement which better reflects reality, and to include information on this matter in his next report on the administrative and financial implications arising from the report of the United Nations Joint Staff Pension Board.**

38. In his report on the administrative and financial implications arising from the report of the Pension Board (A/C.5/72/2), the Secretary-General indicates that, should the General Assembly approve the proposals of the Pension Fund, the overall requirements for the United Nations in the biennium 2018–2019 would amount to $22,881,900. Of those requirements, the share of the regular budget would amount to $14,552,900 and the balance of $8,329,000 would be reimbursed to the United Nations by UNDP and UNICEF. In addition, on the basis of the latest information on the number of participants in the Fund, the share of the United Nations Secretariat and the funds and programmes would have to be increased; consequently, an appropriation of $51,700 would be required under section 1, Overall policymaking, direction and coordination, of the proposed programme budget for the biennium 2018–2019. That amount would represent a charge against the contingency fund (see A/C.5/72/2, paras. 6–8). **Subject to its recommendations in paragraphs 29, 30, 31 and 32 above, the Committee recommends the approval of the Pension Board's proposals for non-post resources under administration costs.**

C. Investment costs

39. The proposed requirements for the investments of the Pension Fund amount to $85,586,400 for the biennium 2018–2019, representing an increase of $777,700, or 0.9 per cent, compared with the appropriation for 2016–2017.

Post requirements

40. The proposed requirements for posts of $25,818,600, which is the same amount as the appropriation for the biennium 2016–2017, would provide for the continuation of 85 posts (57 in the Professional and higher categories and 28 in the General Service and related categories). The Investment Management Division does not request any new posts for the biennium 2018–2019. **The Advisory Committee recommends the approval of the Pension Board's staffing proposals under investment costs.**

Non-post requirements

41. The proposed non-post requirements of $59,767,800 represent an increase of $777,700, or 1.3 per cent, compared with the revised appropriation for the biennium 2016–2017. The main increases by object of expenditure are as follows:

(a) Under other staff costs: an increase of $550,800, or 18.6 per cent, which would provide for 13 positions funded through general temporary assistance (4 P-4, 2 P-3, 2 P-2 and 5 General Service), is attributable to additional work-months compared with 2016–2017;

(b) Under general operating expenses: an increase of $663,500, or 8.9 per cent, is attributable to an increase in the rental cost of the premises in New York;

(c) Under furniture and equipment: an increase of $391,000, or 40.7 per cent, would allow for the acquisition of new cybersecurity capability.

42. The above-mentioned increases in resource requirements would be offset in part by decreases under contractual services ($750,200), supplies and materials ($70,800), consultants ($34,000) and hospitality ($500).

External advisers and managers

43. The supplementary information provided to the Advisory Committee indicates that under contractual services, an amount of $6,874,800 is requested for non-discretionary advisers, external investment research and an external manager database. It is indicated that the Investment Management Division currently has contracts with five non-discretionary advisers who provide summary reporting and analysis on different markets, while all final investment decisions rest solely with the Division. The fees for those advisers are fixed and are paid on an annual basis. The supplementary information also indicates that the Division intends to use the services of new non-discretionary advisers at a cost of $1,020,000 to strengthen the Pension Fund's ability to apply sound risk measurement and risk management oversight. **In view of the important role performed by these non-discretionary advisers and the significant fees involved, the Committee trusts that the Fund will regularly assess the performance of the non-discretionary advisers as well as their impact on the overall performance of the Fund, and provide related details thereon in the next annual report of the Fund.**

44. The Board of Auditors indicates in its report that the Pension Fund has contracted the services of external fund managers for investing in small-cap equity of $2.55 billion in different geographical regions, and for which management fees in the amount of $10.1 million were paid in 2016. In its previous report, the Board recommended that the Fund finalize and publish its selection and evaluation criteria for external funds and discretionary investment managers. In its most recent report, the Board notes that the Representative of the Secretary-General approved a policy covering the engagement, monitoring and termination of external fund managers in February 2017. However, this policy does not prescribe any format or criteria for

conducting an evaluation of the external fund managers' performance. The Board also notes that the policy is silent on the duration of the contract, which should be an essential requirement for soliciting the bids (see A/72/5/Add.16, chap. II, paras. 63–67). With regard to the selection of external fund managers, the Advisory Committee was informed, upon enquiry, that the Investment Management Division makes use of a related database and screens candidates on the basis of a set of preferred criteria. The Division also considers the composition of the Fund's portfolio itself to ensure that the managers are well positioned relative to the Fund's benchmark.

45. **The Advisory Committee concurs with the recommendation of the Board of Auditors that the Fund incorporate provisions for the duration of the contract in the policy covering the engagement of external fund managers. In addition, the Fund should formalize the evaluation method before awarding or renewing their contract.**

Travel for tax reclamation

46. In the past, the Investment Management Division had a budget for the travel of staff to countries to address queries in locations where there was a potential for the reclamation of tax. Upon enquiry, the Advisory Committee was informed that the Fund's budget now includes an external tax adviser for this purpose with a presence in many countries. The Committee was also informed that, occasionally, Division staff accompanies the tax adviser to meetings outside the United States of America. **The Committee considers that issues related to tax reclamation should be dealt with by the external tax adviser and therefore recommends that the practice of the travel of staff for this purpose be discontinued.**

47. **Subject to its observations and recommendations in paragraphs 45 and 46 above, the Advisory Committee recommends the approval of the Pension Board's proposals for non-post resources under investment costs.**

Investment diversification

48. As regards the geographical diversification of the Pension Fund's investments, which has been a matter of previous interest to the General Assembly, the Advisory Committee was informed that the value of the Fund's investment in developing countries had increased from $5.857 billion as at 31 December 2015 to $6.221 billion as at 31 December 2016, which represents an increase of 6.2 per cent, including an increase in the developing Asian region of 20.7 per cent, an increase in the African region of 4.7 per cent and an increase in the developing Latin American region of 9.9 per cent. The Fund had investments in more than 110 countries as at 31 December 2016. **The Committee welcomes the efforts to enhance the Fund's investment profile and recalls that the General Assembly, in its resolution 71/265, requested the Secretary-General to continue to diversify its investments between developed, developing and emerging markets, wherever this serves the interests of the participants and the beneficiaries of the Fund, and also requested the Secretary-General to ensure that decisions concerning the investments of the Fund in any country are implemented prudently, taking fully into account the four main criteria for investments, namely, safety, profitability, liquidity and convertibility, under volatile market conditions.**

49. In terms of environmental, social and governance investments, the Advisory Committee was informed, upon enquiry, that the Pension Fund's climate-change investments have contributed favourably to the Fund's investment returns. For example, the Fund's two low-carbon exchange traded funds have generated returns that have exceeded their benchmarks from their inception in December 2014 to the

present. The approach of the Investment Management Division is to integrate environmental, social and governance factors into investments in all asset classes to improve the risk return characteristics of the total portfolio from an investment perspective.

D. Other costs

50. In its report, the Pension Board indicates that an amount of $2,929,200 under audit costs would cover estimated requirements for external audit ($786,400), as requested by the Board of Auditors, and those for internal audit ($2,142,800), as requested by the Office of Internal Oversight Services. In addition, an amount of $965,600 under Board expenses would cover: travel costs for the Chair of the Pension Board to attend the meetings of the Advisory Committee and the Fifth Committee ($57,700); the travel of the Board's advisory committees ($705,000); administrative expenses of the sixty-fifth and sixty-sixth sessions ($133,200); and the travel of representatives of the Federation of Associations of Former International Civil Servants to Pension Board meetings ($69,700) (see A/72/383, paras. 184 and 187). **The Advisory Committee recommends the approval of the proposal of the Pension Board regarding audit costs and Board expenses.**

IV. Implementation of the recommendations of the Board of Auditors

51. The report of the Board of Auditors for the year ended 31 December 2016 contains information on the implementation of the Board's recommendations to the Pension Fund from prior periods. The Board followed up on 26 recommendations and noted that only 5 had been fully implemented, while 21 were still under implementation, including important recommendations related to investment management and pension processing. The Board views the slow progress in the implementation of recommendations as an area of concern, while the Fund notes that outstanding recommendations relate to issues requiring major structural changes and the participation of external organizations which are not under the control of the Fund (see A/72/5/Add.16, chap. II, para. 7 and annex).

52. In his report on the implementation of the recommendations of the Board of Auditors, the Secretary of the Pension Board indicates that as at August 2017, the seven recommendations contained in the report of the Board of Auditors for the year ended 31 December 2016 were in progress (see A/72/364, table 1). The target dates for the implementation of the recommendations vary from the fourth quarter of 2017 to the fourth quarter of 2019. The Secretary acknowledges that as at August 2017, 21 Board recommendations from prior financial periods were not yet fully implemented. The report indicates however that, based on the target dates, all the recommendations are scheduled to be implemented by the end of 2018 (see A/72/364, table 3 and paras. 47–88). **The Advisory Committee stresses again the importance for the Fund and the member organizations to implement all recommendations made by the Board of Auditors expeditiously (see also A/71/621, para. 44).**

V. Membership of the Investments Committee

53. Article 20 of the Regulations of the Pension Fund stipulates that the members of the Investments Committee shall be appointed by the Secretary-General after consultation with the Pension Board and the Advisory Committee, subject to

confirmation by the General Assembly. Accordingly, the Secretary-General conveyed to the Board and to the Advisory Committee the proposal to appoint two ad hoc members for a one-year term starting on 1 January 2018. In accordance with established procedures, the Advisory Committee conveyed its views on the proposal in a letter to the Secretary-General dated 19 October 2017.

54. The Advisory Committee was informed, upon enquiry, that pursuant to article 20 of the Regulations of the Pension Fund, the Investments Committee shall consist of nine members. However, the number of Committee members has varied over time. For example, the average number of members, both regular and ad hoc, has been 10 from 2005 to 2017. The Advisory Committee was also informed upon enquiry that the term of regular members is typically three years, and an ad hoc term is a one-year appointment. However, Committee members may serve for more than one ad hoc and/or regular term, with a total appointment of up to 15 years.

55. The Advisory Committee recalls that it concurred with the concerns expressed by the Pension Board regarding the geographical representation of the Investments Committee and the process of identifying candidates. **The Committee trusts that further efforts will be made to identify potential candidates from all regional groups (see also A/71/621, para. 20).**

VI. Conclusion

56. The recommendations of the Pension Board are contained in paragraph 189 of its report (A/72/383). **Subject to its observations and recommendations contained in the present report, the Advisory Committee recommends that the General Assembly approve the recommendations of the Pension Board.**

57. Should the General Assembly approve the proposals and recommendations of the Pension Board, the adjusted requirements for the biennium 2018–2019 that would arise for the United Nations are estimated at $22,626,200. Of those requirements, the share of the regular budget would amount to $14,390,300 and the balance of $8,235,900 would be reimbursed to the United Nations by UNDP and UNICEF.