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

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 Assistant Secretary-General for Central Support Services has been designated as the representative of the Secretary-General for the investments of the Pension Fund and has been delegated the responsibility for the oversight of the investment of the assets of the Fund on behalf of the Secretary-General. The representative is assisted by the staff of the Investment Management Service. 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 period from 1 April 2006 to 31 March 2008 and on investment returns, diversification of investments and development-related investments of the Fund.

II. Changes during the biennium

3. During the biennium ended 31 March 2008, the indexation of the North American equities was endorsed by the Pension Board in July 2006, and the administrative cost for implementation was approved by the General Assembly in

December 2006. However, implementation has been deferred owing to declining markets in 2007-2008 where the focus of the Investment Management Service has been on the preservation of capital. Indexation is a tool that can be used to provide flexibility in managing the assets of the Fund, in particular, for the fine tuning of asset allocation. Because indexation approximates the returns of financial markets as a whole, it is a tool that is most advantageously used in rising markets. So long as the ongoing financial crisis continues, avoidance of the most vulnerable sectors is especially critical, and this has been achieved, so far, by active management. During the turbulent markets of 2007, active management did indeed produce outperformance that added $1.033 billion to the portfolio, in excess of the benchmarks established by the Fund. With declining markets, active management has continued through 31 March 2008 to provide outperformance that has resulted in smaller losses than would have been experienced had indexation been implemented. The use of indexation in the appropriate circumstances can expand the internal investment capabilities of the Fund, reduce transaction costs and allow more precise adjustments to the portfolio mix. The Investment Management Service is currently reviewing the proportion of each portfolio which could be allocated to indexation strategies. Moreover, the Investment Management Service is monitoring market conditions carefully, aware that indexation is a tool which may become useful once market conditions stabilize. Indexation may add depth to the investment decision-making and asset allocation of the Fund.

4. Although the long-term strategic asset allocation remained the same as adopted in May 2005, the short-term tactical asset allocation range was changed from plus or minus 3 percentage points to plus or minus 7 percentage points from the Fund's strategic asset allocation for equities and bonds. The range for real estate and short-term investments remained at plus or minus 3 percentage points.

5. The current private market benchmark for real estate assets was changed from the NCREIF Property Index to the NCREIF Open End Diversified Core Equity Index to better represent the Fund's portfolio, as the index valuations would be based on quarterly valuations that would have more leverage and would fluctuate based on debt mark-to-market.

6. A comprehensive asset-liability management study was conducted, and the results of the study were discussed at the joint session of the Investments Committee and the Committee of Actuaries on 1 May 2007. The Investments Committee noted the following:

(a) The Pension Fund is stable and well funded with a projected long-term funding ratio at approximately the 100 per cent level;

(b) A passive currency hedging strategy would not materially improve performance;

(c) The process of setting strategic asset allocations could be usefully assisted by asset liability modelling;

(d) There was little difference between the current and the recommended asset allocation recommendations resulting from the "Prudent" and the "Return Oriented" philosophies and the determination of optimal asset allocations should be an objective of the study;

(e) The Pension Fund may benefit from considering new asset classes;

(f) The process of determining an appropriate risk-tolerance philosophy for the Pension Fund would require, in future, the close involvement of the Investments Committee and the Pension Board with regular review (every 3-4 years) of assumptions, criteria and weightings;

(g) The Board may wish to conduct a future asset-liability management study in concert with the 31 December 2009 actuarial valuation for its consideration at its session in 2010.

7. On 1 May 2007, the Investments Committee recommended to the Secretary-General that he study the opportunities for introducing private equity and real return asset classes, also known as alternative asset classes. At its fifty-fourth session, the Pension Board took note of the recommendation of the Investments Committee that the Secretary-General study the opportunities for introducing private equity and real return asset classes and report to it in 2008 on any concrete proposals he may arrive at for the introduction of new asset classes, after due consultation with the Investments Committee.[1] Following an alternative investments study conducted by Mercer Investment Consulting Inc., a report dated 30 April 2008 was submitted to the Investment Committee at its 196th meeting on 5 May 2008. The report recommended that material strategic asset allocation changes be made to lower the Fund's exposure to systematic risk and to increase diversification. On 5 May 2008, the Investments Committee reviewed the study and concurred with its recommendations, to be reported to the Pension Board at its fifty-fifth session. The study recommended that the following new asset classes be added to the Fund's portfolio under the overall heading of alternative asset classes: (a) private equity; (b) hedge funds (fund of funds only); and (c) hybrid assets; adding infrastructure, timberland and farmland to the existing real estate allocation. The proposal on new long-term guidelines made in the alternative investments study included investments of 4 per cent in hedge fund of funds, 4 per cent in private equity and an additional 4 per cent in real estate. After due consultation with the Investments Committee, the representative of the Secretary-General for the investments of the Fund intends to gradually implement the following asset allocation recommended by Mercer as follows:

	Previous long-term guidelines	*New long-term guidelines*	*Allocation change*
Global equities	60	55	-5
Global nominal bonds	15	8	-7
Global inflation-linked bonds	10	10	0
Emerging market debt	6	6	0
Real estate[a]	6	10	4
Alternative assets	0	8	8
Short term	3	3	0
Total	**100**	**100**	**0**

[a] Includes timberland, infrastructure and farmland.

[1] JSPB/54/R.42.

8. There have been changes in the Fund's advisory arrangements. In April 2007, Citigroup Inc. acquired Nikko Cordial Corporation, the parent company of Nikko Asset Management. As a consequence, global investment advisory agreements between Nikko Asset Management and the United Nations with regard to the Pension Fund and the United Nations University Endowment Fund were terminated on 14 May 2007, but were automatically extended while the United Nations transitions its services to a new investment adviser. With respect to the Pension Fund's discretionary advisers, the contract of one of the Fund's European small-capitalization account managers, namely, Credit Suisse Asset Management, expired on 31 December 2006 and was not renewed owing to their organizational restructuring. Moreover, owing to the extremely volatile market conditions and continuous underperformance of SG Asset Management, the Investment Management Service started reducing the position in the Fund in the third quarter of 2007. After four tranches, the Investment Management Service liquidated the position, and SG Asset Management's contract was terminated in April 2008. The Fund now has three discretionary advisers who manage small capitalization accounts. As at 31 March 2008, the amount under management by the discretionary advisers was $887.8 million. The Fund has four non-discretionary advisers for large capitalization stocks, real estate and fixed-income assets.

III. Economic review

9. As of April 2006, the United States economy's persistence concerned policymakers. Real gross domestic product (GDP) grew at an impressive 4.8 per cent annual rate (after downward revision) in the first quarter of 2006 at the same time that the pace of inflation, driven by energy prices, approached 4 per cent. Steady Federal Reserve monetary tightening, begun two years prior, finally began to brake activity in the middle quarter of the calendar year. Real GDP slowed to annual rates of 2.7 per cent and 0.8 per cent in the second and third calendar quarters of 2006, respectively. Manufacturing moderated (the Institute for Supply Management's index dropped from roughly 55 in January 2006 to below 52 in September 2006), and consumer confidence wavered (according to the University of Michigan and Conference Board surveys), although employment remained fairly healthy. Non-farm payrolls expanded an average of 148,000 per month in the final nine months of 2006 and supported a continuation of consumer spending growth near 3 per cent. However, elevated interest rates led to a decrease in residential housing investments and the first decline in household wealth (as measured by the median sale price of existing homes) in a decade. The Federal funds target plateaued at 5.25 per cent in mid-2006, up sharply from 1.0 per cent in 2004. Real GDP growth managed an uptick to 1.5 per cent in the fourth quarter of 2006, but the overall United States economy was rather subdued at the end of the year compared with its start. Consumer inflation retreated to below 3.0 per cent.

10. The United States real GDP managed to grow again in 2007, the sixth year in a row. The year-over-year advance was 2.3 per cent, nearly even with the 2.4 per cent rate in 2006, although many indicators slowed and others were volatile. The quarterly pattern included near-zero expansion in the first quarter and negative expansion (-0.2 per cent as revised) in the final three months of the year, the first negative growth quarter since 2001, at the end of the last recession. The middle six months of 2007 included solid GDP growth, but it was short-lived. Regarding the

year's trends in specific industries, automobile unit sales fell to 16.1 million, the lowest level since 1998; the domestic manufacturer market share evaporated. Housing slowed markedly, and a credit/liquidity crisis began, creeping into most segments of the financial industry. Housing starts fell nearly 25 per cent to 1.35 million units, the lowest since 1993, as existing home sales declined 12.8 per cent. By December 2007, the median existing home price was 6.0 per cent lower than 12 months prior. Reflecting those data, delinquencies and foreclosures rose to their highest levels since the Mortgage Industry Bankers Association began keeping records in 1972. Repercussions in the subprime (high-risk) lending markets contributed meaningfully to earnings weakness and capital concerns at many financial institutions. Tightened credit conditions (the beginning of a credit crunch) resulted. Elsewhere, monthly employment gains in 2007 were welcomed, although the year's 110,000 monthly average was down markedly from 2006. Only 18,000 jobs were added in December 2007 as the unemployment rate climbed slowly to its year-end 5.0 per cent mark. Focus remained on soaring energy prices that reduced household purchasing power and increased business costs. The relatively stable oil prices in the first half of 2007 ($55 to $65 per barrel) climbed sharply to near $95 per barrel in December 2007. Gasoline averaged around $3.00 per gallon for the first time, causing consumer inflation to pass 4 per cent in the fourth quarter. Consumer sentiment tanked. The United States dollar fell from about $1.32 to the euro to about $1.47, boosting exports. The Federal Reserve fought inflation by maintaining a 5.25 per cent Federal funds target until September 2007, when all of the above evidence led to a rapid policy shift to monetary accommodation and the fastest Federal funds rate reductions in two decades (from 5.25 per cent in September 2007 to 2.00 per cent April 2008).

11. In early 2008, United States economic data confirmed the developments that had taken place late in 2007. At the outset of the new year, it was increasingly feared that slowing real GDP growth could lead to a recession extending beyond United States shores. The domestic housing industry slumped again; indices of the National Association of Purchasing Managers and the Institute for Supply Management suggested a broad economic contraction (below 50 readings for both); non-farm payrolls shrank each month; the unemployment rate climbed to 5.1 per cent in March. Consumers were squeezed even tighter between stagnant incomes and escalating prices; sentiment plummeted to a five-year low at the end of the first quarter. Oil and commodity prices marched upward again, with the former rising to $105 per barrel in March. The Federal Reserve accelerated its fight against what appeared to be a probable recession. Urgent monetary ease was expressed through several interest rate cuts of 50 basis point or more, including an unusual inter-meeting cut in January. In addition, extraordinary fortification of the United States financial system was necessary in March: a $200 billion lending programme was announced. The Federal Reserve opened the discount window to additional institutions and expanded acceptable collateral to include "high grade" mortgage-backed securities. Bear Stearns' extensive and deepening losses, via an engineered takeover by JP Morgan, were absorbed by the Federal Government to avoid a potential financial system meltdown. On the fiscal front, $168 billion worth of tax rebate and spending legislation, designed to stimulate consumer spending, moved through Congress and was signed into law in February. Reflecting all of those problems and data, the United States dollar fell sharply to almost $1.58 per euro in the first quarter of 2008. After revisions, real GDP in the first quarter of 2008 was

determined to be 0.9 per cent growth, better than the prior three months because of significant net export increases.

12. Canada's economy, influenced significantly by trends in the United States, began the biennium in healthy condition. Real GDP growth was a solid 3 per cent annual rate, inflation was about 2 per cent, and unemployment recorded a multidecade low (approaching 6 per cent). The Government's budget showed a surplus while the current account surplus hovered around its record high. Over the last nine months of 2006, the resources, services and construction sectors were steady, while manufacturing, which uses more expensive energy and is affected by a strengthening Canadian dollar, stumbled somewhat. At the end of 2006, year-over-year real GDP was 1.8 per cent, the lowest since 2003, but still not especially worrisome. Based largely on cumulative evidence from the United States automobile sector, forecasts for 2007 deteriorated. To the surprise of many, the Canadian dollar weakened by 4.3 per cent in the final quarter of 2006 owing to softer-than-expected commodity prices. Nevertheless, overall employment was stable, domestic consumer demand was balanced and the important energy sector thrived.

13. In 2007, Canada's real GDP growth rebounded to around 3.0 per cent annual rate in September and then retreated once again, closing the calendar year just below the pace of 2 per cent. Personal consumption, residential construction and energy-influenced regions led the overall economy. Inflation was just above the desired 2.0 per cent rate for most of the year. Rising prices for energy and raw materials (representing most of Canada's exports) strengthened the Canadian dollar, which appreciated 7.8 per cent versus the United States dollar during the second quarter. Early in the third quarter of 2007, the Bank of Canada raised the benchmark interest rate by 25 basis points to show its concern about rising prices. The rate was not raised again in September 2007, in part due to developing recession concerns in the United States and heightened fear that subprime loan risks might infect some Canadian financial firms. The Canadian dollar reached parity with and rose above the United States dollar in September, the first time since late 1976. Gold bullion prices rose sharply to a 27-year high. The Bank of Canada reduced its benchmark interest rate to 4.25 per cent in December 2007 in response to increased credit market turbulence that forced the bank to inject cash for six straight days. The deepening United States subprime mortgage collapse caused a 35 billion Canadian dollar restructuring of Canadian asset-backed commercial paper. From year-end 2006 to year-end 2007, the Canadian dollar rose a total of 15.2 per cent.

14. Canada entered 2008 with most indicators pointing to a flagging real GDP. In response, the Bank of Canada cut interest rates by another 25 basis points in January, to 4.00 per cent, and by another 50 basis points in March, to 3.50 per cent, in attempts to stimulate activity. Exports of autos and auto parts declined in early 2008, as did exports of lumber and paper. Weak demand from the United States, Canada's most important trading partner, and the strong Canadian dollar were responsible. Unfortunately, the inevitability of job layoffs became apparent. Canada's year-over-year real GDP growth fell to just 0.8 per cent in March 2008.

15. During the fiscal year 2006, GDP growth in the European economies accelerated to the range of 2 to 3 per cent. Growth in the Eurozone was mainly from the continuing strong export-led industrial demand from the emerging economies of Asia, Latin America and the Middle East. Strong growth in the United Kingdom of

Great Britain and Northern Ireland was driven by a boom in financial services and rising housing prices. Consumer confidence recovered during the first quarter of fiscal year 2006 in both the Eurozone and the United Kingdom, but diverged afterwards as the latter trended down and the former improved. With good economic growth outlook and record low unemployment in the Eurozone, the European Central Bank was worried about rising inflation as energy costs continued to be above trend and wage pressure rising with low unemployment. Inflation was trending above the 2 per cent target. This concern led the European Central Bank to hike interest rates six times in increments of 25 basis points to 3.75 per cent by March 2007. Concerns about inflation also led the Bank of England to increase interest rates three times during the year, from 4.5 to 5.25 per cent.

16. Growth in the European economies started strong in the first half of fiscal year 2007 but slowed in the second half of the year. During the first half of fiscal year 2007, the European economies grew 2.25 to 3.00 per cent. Consumer confidence was stable as inflation and higher interest rates were offset by rising housing prices, albeit at a slower pace. Both the European Central Bank and the Bank of England were concerned about the continuing rise in inflation as energy and food prices escalated. Interest rates were further increased to 4 per cent by the European Central Bank and to 5.75 per cent by the Bank of England by September 2007. However, there were signs of fatigue from consumers in the United Kingdom as spending and mortgage demands slowed. The liquidity squeeze stemming from the United States subprime collapse also affected the financial system. Northern Rock, a United Kingdom mortgage bank, was nationalized in September 2007. The European Central Bank and the Bank of England, jointly with other central banks, increased lending to ease the liquidity condition in the market. The second half of fiscal year 2007 was marked by below expectation economic growth, inflationary pressure, a stronger euro and British pound, and a credit crunch from the United States subprime write-downs. The Eurozone industrial production fell and manufacturing grew at its slowest pace in more than two years in October. Inflation rose to 3 per cent in the Eurozone and 2.1 per cent in the United Kingdom by November 2007, mainly from the sharp jump in oil prices to near $90 per barrel and higher food prices as producers passed on higher commodity prices. Consumer confidence dropped considerably in the second half of the year in both the United Kingdom and the Eurozone. The Bank of England reduced the interest rate to 5.5 per cent in December 2007 and to 5.25 per cent in March 2008 as worries about financial liquidity, housing prices and economic growth intensified. The European Central Bank kept the interest rate at 4 per cent as inflationary concerns outweighed economic growth.

17. Japan's economy was supported by resilience in the overseas economies in the fiscal year 2007; however, its growth slowed towards the end of the biennium ended March 2008. Domestic demand was strong in fiscal year 2007, with strong capital expenditure reflecting growing corporate earnings and strong private consumption reflecting increasing household income. Both corporate and consumer confidence levels weakened towards the end of the biennium. Confidence among Japan's largest manufacturers fell to a four-year low in March 2008 on the basis of the Tankan survey of the Bank of Japan. Consumer confidence also dropped to its lowest level in five years in February 2008 owing to rising energy and food prices. Property prices of prime sites in the metropolitan area started to decline after the sharp price increases in the past few years owing to lower speculative investments from foreign

investors. Housing investments dropped substantially after tighter regulation in building permission was implemented and demand weakened amid sharply rising property prices. Consumer prices in Tokyo rose by 0.6 per cent in March 2008, gradually gaining momentum after it turned to positive in October 2007. The post of governor of the Bank of Japan became vacant in March 2008, after Government nominees were rejected by the opposition-controlled House of Councillors. The approval ratio for Prime Minster Fukuda fell to 31 per cent.

18. The Japanese yen appreciated from 118.0 against the United States dollar as of the end of March 2006 to the level of 99.5 yen at the end of March 2008, triggered by the aggressive rate cuts in the United States to stabilize financial markets and by the unwinding activities of the carry trade by hedge funds. During the biennium, the Japanese yen traded in the range of 96.9 to 124.1 against the United States dollar.

19. The Australian economy's strong growth slowed towards the end of the biennium but remained positive. The unemployment rate fell continuously to a 34-year low of 4.1 per cent in March 2008. The Australian consumer price index accelerated to a 7-year high of 4.2 per cent from a year earlier in the first calendar quarter of 2008, uncomfortably above the 3.0 per cent upper limit of the central bank target. The Reserve Bank of Australia continuously raised the base rate from 5.50 per cent at the end of March 2006 to 7.25 per cent in March 2008. The Australian dollar appreciated 21.9 per cent versus the United States dollar during the biennium.

20. The economy of Hong Kong SAR grew at 5.5 per cent and 7.3 per cent year-on-year for the 2007 and 2008 fiscal years, respectively, sustained by improving labour markets and rising asset prices. The property supply remained tight, and demand was supported by good affordability levels and low leverage. Transaction volumes peaked in January 2008 and slowed in the last months of the biennium. Inflation risk rose in the region, reflecting the higher prices for energy and food. The consumer price index in Hong Kong SAR rose by 6.3 per cent in February 2008, accelerating from the lowest in the biennium of 1.2 per cent in May 2007. The consumer price index in Singapore rose significantly, from 0.7 per cent year-on-year in fiscal year 2007 to 6.7 per cent year-on-year at the end of fiscal year 2008. The Singapore dollar appreciated by 14.8 per cent against the United States dollar.

21. The emerging economies in Asia continued to exhibit strong momentum during the period under review. China remained the fastest-growing economy in the region with GDP growth of over 10 per cent per annum during 2006 and 2007 owing to continued strong exports and the steady growth rotation towards domestic demand. China remained the most important factor, not only for regional and global economic growth but also for the outlook on world commodity prices. Through 2007 the economy of the Republic of Korea maintained its industrial production expansion, driven mainly by exports. However, the country's domestic economy remained sluggish throughout the period. GDP growth in India remained above 8 per cent in 2006 and 2007, but the latest economic indicators showed weaker manufacturing and construction output, while private consumption remained robust. In Latin America and the Caribbean, economies continued to benefit from strong commodity prices. The two largest economies, Brazil and Mexico, had strong economic growth in 2007. Mexico reached 3.8 per cent despite the anaemic economic growth in the United States, its major trading partner. GDP growth in

Brazil was hampered owing to the tight monetary conditions and the capacity constraints capping production in some sectors. For the period, Argentina, Columbia and Peru had GDP growth of over 8 per cent. In Eastern Europe, the economic performance among most countries continued to be strong, above 5 per cent, except in Hungary, where current account and budget deficits continued to stay high. In the Czech Republic, the GDP growth remained driven mostly by domestic demand, particularly consumption, despite slower real wage rises. Economic activity in Poland stayed robust, but unemployment remained high throughout the period under review. The Russian economy continued to enjoy strong growth, benefiting from high energy prices, but the rapid rise of public expenses pushed inflation above 13 per cent over the past 12 months. South Africa has benefited from the world demand, particularly from China, for commodities.

22. During the biennium ended in March 2008, the global fixed income portfolio experienced significant volatility. Significant stresses across market participants started to manifest themselves through a number of bond funds that were experiencing liquidity problems owing to sharply deteriorated and illiquid asset-backed holdings. This situation commenced in the summer of 2007, and it affected various asset-backed investment vehicles, including conduit commercial paper, structured investment vehicles and the underlying collateralized debt obligations, and other structured products with poor transparency as to the value of the underlying assets. The resulting credit event forced major global financial institutions to realize losses of over $500 billion, with the expectation of losses to approach the 1 trillion mark. The United States Federal Open Market Committee lowered its overnight federal funds rate target in this period from 5.25 per cent to 2.00 per cent. Markets through the end of the biennium remained fairly volatile and were anticipating further global write-offs.

23. During the biennium ended 31 March 2008, commercial real estate markets saw a slowdown in investment activity coinciding with the beginning of the credit crunch in August 2007. This was because of the decrease in availability of financing, which is necessary for most real estate transactions. Although transaction activity decreased, pricing for commercial real estate moderated only slightly. This slowdown was felt most severely in the United States, but also to a lesser extent in Europe. Asian markets were beginning to be affected by reduced financing availability only by 31 March 2008. Commercial development activity in the United States and Europe slowed down dramatically during the year, with only a slight reduction in Asia.

24. The single-family residential market, which had peaked in pricing in the United States in 2006, saw a 14.1 per cent decline in prices in the country throughout the year. Prices also decreased in the United Kingdom and Spain, and began showing signs of decrease in Australia, Japan and New Zealand at the very end of the biennium. Construction of new homes slowed down very dramatically during the year in the United States, the United Kingdom and Spain. Most Asian markets still enjoyed a boom in the construction of single-family homes as of 31 March 2008.

IV. Diversification

25. Diversification is the investment of assets among a variety of securities or among securities in a variety of markets with the goal of controlling risk in a portfolio without proportionately reducing the expected return. The Pension Fund's policy of broad diversification of its investments by currency, types of asset classes and geographical areas continues to be the reliable method of improving the risk return profile of its portfolio over long periods of time. The Fund is unique among major pension funds in its commitment to diversifying its portfolio on a fully global basis.

26. During the biennium ended 31 March 2008, exposure to equities was kept mostly above the neutral 60 per cent long-term strategic guideline through 31 March 2007 but generally below the 60 per cent strategic guideline, as the ongoing financial crisis and surging prices of crude oil and food had an impact on the global economy. Equities were at 57.2 per cent at the end of the biennium. Bonds were kept at the high end of the 31 per cent long-term strategic target guideline, plus or minus 7 per cent, as the Federal Reserve was cutting benchmark rates that made fixed-income investments more attractive than equities in terms of return. The bond portfolio began the biennium at 28.3 per cent of the total portfolio and increased to 36.7 per cent at the end of March 2008. Exposure to real estate rose from 4.1 per cent of the portfolio on 1 April 2006 to 4.4 per cent at the end of the biennium. Cash and short-term investments started the biennium at 5.3 per cent in April 2006 and ended the biennium at 1.6 per cent. The investment portfolios are continuously being rebalanced following the quarterly meetings of the Investments Committee in order to achieve the tactical asset allocation decided by the representative of the Secretary-General.

27. In addition to changing the proportions of the various asset classes in the portfolio, changes were made within asset classes to implement the Fund's investment strategy and to take advantage of new trends in economic cycles and financial markets as well as movements in currencies and interest rates. During the credit market crisis, where the downward move in the United States dollar against most currencies worldwide is evident, the currency effect from investments in the euro and Japanese yen securities reduced the overall Fund risk and increased the total return. United States equities were kept underweight, while European equities and currencies were kept overweight the entire biennium, as Europe benefited from a strong currency vis-à-vis the United States dollar and the European Central Bank refrained from dropping interest rates for the euro. Exposure to Japanese equities was kept constant during the biennium as Japan experienced slower growth and rising prices for energy and food. Investments in emerging market equities were increased during the biennium and benefited from strong performance results. Developing markets, such as India and China, continue to grow much faster than developed countries. Equities suffered globally from the ongoing credit crisis, weakened economic growth and inflationary concerns. The Fund maintained a modest underweight in the financial sector and continued to limit exposures, particularly from the third quarter of 2007 onwards. The Fund has maintained overweights in the consumer staples and industrial sectors. The relative over- and underexposures have contributed positively to the Fund's overall performance. This broad diversification of the Fund reduces risk across currencies and markets.

28. The fixed-income portfolio is invested in 16 different currencies; 11 per cent of which is in United States dollars and 89 per cent in non-dollar currencies. In terms of geographical diversification, the portfolio is invested in 34 countries and 7 supranational and regional institutions as of March 2008.

29. In terms of geographical diversification, the proportion of the Fund invested in North America decreased to 36.3 per cent in March 2008 from 44.8 per cent in March 2006. Investments in Europe increased to 36.0 per cent from 32.4 per cent, while in Asia and the Pacific, the proportion of investments increased to 20.4 per cent from 14.1 per cent during the same period. With geographic changes, currency diversification also changed. Diversification in terms of asset class, currency and region had a significant impact on the performance of the Fund. Investing in only one currency other than the United States dollar would have had a negative impact on its performance, as the movements of the currencies against the dollar are not synchronized. There were several times when the total returns were negative in local currencies but positive in dollar terms. Areas of the Fund's investment are shown in tables 1 through 3.

Table 1
Market value of Fund investments as at 31 March 2008[a]

Country/area	*Amount (in millions of United States dollars)*	*Percentage*
Argentina	8.9	0.02
Australia	668.4	1.65
Austria	52.9	0.13
Belgium	151.2	0.37
Brazil	327.7	0.81
Canada	1 005.2	2.48
Chile	58.4	0.14
China	647.0	1.59
Cyprus	50.2	0.12
Czech Republic	64.4	0.16
Denmark	248.5	0.61
Egypt	35.4	0.09
Estonia	39.2	0.10
Finland	76.1	0.19
France	2 662.6	6.56
Germany	2 066.4	5.09
Greece	114.4	0.28
Hungary	59.2	0.15
Iceland	47.7	0.12
India	231.2	0.57
Ireland	176.9	0.44
Israel	17.5	0.04

Country/area	*Amount (in millions of United States dollars)*	*Percentage*
Italy	761.0	1.87
Japan	4 555.1	11.22
Jordan	0.0	0.00
Lithuania	37.2	0.09
Malaysia	661.9	1.63
Mexico	595.5	1.47
Netherlands	653.9	1.61
New Zealand	0.0	0.00
Norway	294.8	0.73
Poland	347.9	0.86
Portugal	200.6	0.49
Qatar	29.7	0.07
Republic of Korea	763.0	1.88
Russian Federation	311.3	0.77
Singapore	748.0	1.84
South Africa	411.1	1.01
Spain	959.0	2.36
Sweden	735.9	1.81
Switzerland	1 458.2	3.59
Turkey	73.5	0.18
United Kingdom of Great Britain and Northern Ireland	2 959.9	7.29
United States of America	13 730.6	33.83
Emerging markets[b]	130.6	0.32
International[b]	253.8	0.63
Regional Africa	221.6	0.55
Regional Asia	312.8	0.77
Regional Europe	498.1	1.23
Regional Latin America	31.5	0.08
Regional Middle East	26.7	0.07
Euro[b]	15.3	0.04
Total fund	**40 587.9**	**100.00**

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

[b] Emerging markets and euro funds are invested in a number of countries under the particular area or currency. International refers to investments in international development institutions, such as the World Bank.

Table 2
Fund investments in developed markets

Country	Equities: 31 March 2006	Equities: 31 March 2008	Fixed income: 31 March 2006	Fixed income: 31 March 2008
Australia	√	√	√	√
Austria	√	—	—	√
Belgium	√	√	√	√
Canada	√	√	√	√
Denmark	√	√	√	√
Finland	√	√	—	—
France	√	√	√	√
Germany	√	√	√	√
Greece	√	√	√	—
Iceland	—	—	—	√
Ireland	√	√	√	√
Italy	√	√	√	√
Japan	√	√	√	√
Netherlands	√	√	√	√
New Zealand	—	—	√	—
Norway	—	—	√	√
Portugal	—	—	√	√
Singapore	√	√	√	√
Spain	√	√	√	√
Sweden	√	√	√	√
Switzerland	√	√	—	√
United Kingdom of Great Britain and Northern Ireland	√	√	√	√
United States of America	√	√	√	√
Total	**19**	**18**	**19**	**20**

Table 3
Fund investments in emerging markets

	Equities[a]		*Fixed income*[b]	
	31 March 2006	*31 March 2008*	*31 March 2006*	*31 March 2008*
Argentina	√	√	√	√
Bahrain	√	√		
Botswana	√	√	—	—
Brazil	√	√	√	√
Bulgaria	—	√		
Chile	√	√	—	√
China	√	√	—	√
Colombia	√	√	—	√
Congo	—	√		
Côte d'Ivoire	√	—	√	√
Croatia			—	—
Cyprus			√	√
Czech Republic	—	√	—	√
Dominican Republic			√	√
Ecuador			√	√
Egypt	√	√	√	√
El Salvador			—	√
Estonia			√	√
Fiji			—	√
Ghana	√	√	√	√
Grenada			—	√
Hungary	√	√	—	√
India	√	√		
Indonesia	√	√	√	√
Iraq			√	√
Israel	√	√		
Jordan	√	√	√	√
Kazakhstan	√	√	—	√
Kenya	√	√		
Kuwait	√	√		
Kyrgyzstan	—	√		
Lebanon	√	√		
Lithuania			√	√
Malawi			—	√
Malaysia	√	√	—	√
Marshall Islands	—	√		

	Equities[a]		Fixed income[b]	
	31 March 2006	*31 March 2008*	*31 March 2006*	*31 March 2008*
Mauritius	√	√	—	—
Mexico	√	√	√	√
Morocco	√	√	√	—
Namibia	√	√		
Nepal			√	√
Nigeria	√	√	√	√
Oman	√	√	√	—
Pakistan	√	—		
Palestine	√	√		
Panama	√	√		
Peru	√	√	√	√
Philippines	√	√		
Poland	√	√	√	√
Qatar	√	√	—	√
Republic of Korea	√	√	—	√
Republic of Moldova			√	√
Russian Federation	√	√	√	√
Saudi Arabia	√	—		
Senegal	—	√		
Serbia			—	√
South Africa	√	√		
Sri Lanka	—	—		
Thailand	√	√		
Trinidad and Tobago			—	√
Tunisia	√	√		
Turkey	√	√	—	√
Turkmenistan	√	√		
Ukraine	—	√	√	√
United Arab Emirates	√	√		
Uruguay			√	√
Venezuela (Bolivarian Republic of)	—	√	√	√
Viet Nam	√	√	—	√
Zambia	—	√	√	√
Zimbabwe	√	√		
Total	**44**	**50**	**26**	**41**

[a] Since 31 March 2006 until 31 March 2008, the Fund increased net exposure of emerging market countries by 14 per cent.
[b] Since 31 March 2006 until 31 March 2008, the Fund increased net exposure of emerging market countries by 62 per cent.

V. Investment returns

A. Total return

30. The market value of the Fund's assets increased to $40,588 million as at 31 March 2008 from $33,331 million as at 31 March 2006, an increase of $7,256 million, or 21.8 per cent. The total investment return was 13.4 per cent for the year to 31 March 2007 and 8.1 per cent for the year to 31 March 2008. After adjustment by the United States consumer price index, those returns represent real rates of return of 10.3 per cent and 4.0 per cent, respectively. The total annualized rate of return for the biennium was, therefore, 10.7 per cent. After adjustment by the consumer price index, the real annualized rate of return for the biennium was 7.1 per cent.

31. Due to a strong market performance during the fiscal year 2007, the Fund recorded a historical high in terms of market value in October 2007. During the biennium, all of the asset classes: equities; bonds; real estate; and short-term investments; contributed to the return, with equities contributing the most to the overall performance of the Fund, with returns of 15.7 per cent in 2007 and 3.4 per cent in 2008. Equities represented 62.4 per cent and 57.0 per cent of the total Fund in 2007 and 2008, respectively. Equities, denominated in currencies other than the United States dollar, had a greater impact on the performance, since the United States dollar depreciated against major currencies. Bonds showed solid positive returns of 8.4 per cent in 2007 and 15.1 per cent in 2008. Real estate performance was strong, 24.0 per cent in 2007 and 9.0 per cent in 2008. Short-term investments returned 5.5 per cent in 2007 and 8.3 per cent in 2008.

32. 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.[2] 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

33. The Fund continues to be, geographically, the most widely diversified pension fund that maintains its accounts in United States dollars but has liabilities in several other currencies. At the end of the period under review, the Fund had more than 60 per cent of its assets in currencies other than the United States dollar.

34. During the year ended 31 March 2007, the Fund performed slightly under the new policy benchmark, which is comprised of 60 per cent Morgan Stanley Capital International (MSCI) All Country World Index, 31 per cent Lehman Brothers Global Aggregate Bond Index, 6 per cent NCREIF Open End Diversified Core Equity Index and 3 per cent Merrill Lynch 91-day Treasury bill with a return of 13.4 per cent versus 13.6 per cent for the policy benchmark. For the same period, the Fund outperformed the 12.7 per cent return of the old benchmark, which comprised 60 per

[2] JSPB/34/R.10.

cent MSCI World Index and 40 per cent Citigroup World Government Bond Index (CWGBI). For the year ended 31 March 2008, the Fund outperformed both benchmarks with the return of 8.1 per cent versus the returns of 5.2 and 6.2 per cent of the new 60/31 and old 60/40 benchmarks, respectively. Over the past 15 years, the Fund achieved an annualized return of 9.4 per cent, outperforming both the 8.6 per cent return of the new 60/31 benchmark and the 8.4 per cent return of the old 60/40 benchmark. In the earlier years, the Fund underperformed owing mainly to its low weighting in equities, but it has caught up rapidly since 2000 owing to the outperformance in the equities and bond asset classes.

35. Over the past 15 years, the MSCI All Country Index and the MSCI World Index had a total annualized return of 9 per cent and 8.9 per cent, respectively, compared with the annualized return of 9.8 per cent achieved by the Fund's equity asset class. During the same period, Lehman Brothers Global Aggregate Index and CWGBI had annualized returns of 6.8 per cent and 7 per cent compared with the annualized return of 7.6 per cent achieved by the Fund's bond portfolio.

C. Important issues to be addressed

36. **Risk management**. The diversification of the Fund and its conservative practice of investing in higher quality companies have continued to protect the Fund. As has been seen during previous financial crises, the Fund has outperformed the market, thus far, during the "subprime" crisis. To strengthen risk management, the Investment Management Service implemented credit rating monitoring in 2007, in time to reduce the weighting of financial sector stocks held in the portfolio to below benchmark weight. The Investments Committee has provided additional guidance on developments in the financial markets, including the review of the investment policy which was presented to the Pension Board at its fifty-fifth session. With the assistance of the Procurement Division, the Investment Management Service has expanded its risk-management information services and is conducting a request for proposal to build this capability further. As for staffing, the process of hiring a Deputy Director for Risk Management is in an advanced stage. A candidate has been identified and recommended to the Central Review Board.

37. **Infrastructure improvements**. The Investment Management Service is focusing on implementing a stronger infrastructure for the placement of transactions, including the trade order management and the SWIFT systems, which would support the secure communication of trades to the financial intermediaries. The additional request for $690,000 to implement the SWIFT system was presented to the Pension Board at its fifty-fifth session in Rome. It should be noted that the need for a stronger payment processing and settlements system has only grown as the fragility of the financial industry has increased the risk of counterparties globally. A Senior Information Systems Officer was recruited at the P-5 level and assigned this project as top priority in July 2008.

38. **Organizational issues**. As part of the whole office review requested by the Pension Board, a report prepared by McLagan was presented to the Investments Committee and to the Pension Board in Rome. The report highlighted the changing structure of the financial services industry, including the change in public sector compensation arrangements and the changes in industry practice with respect to investment advice. Understanding the complexity of the compensation issues and

the needs of the Investment Management Service, the Pension Board requested the representative of the Secretary-General to further elaborate, with the advice of the Investments Committee, on the functional model of the Investment Management Service that it might suggest to the Board, including review of the scope of activities and the managers, bearing in mind the need to ensure that research, generation of investment ideas, trading and portfolio management are optimized and available on a cost-effective and risk contained basis and to present any financial implications that may arise in the context of the budget proposals for 2010-2011. The Board further requested that the representative of the Secretary-General, in elaborating on the functional model, take into account the ability to retain and recruit qualified and experienced investment officers within the remuneration parameters of the United Nations common system. Additional measures for the retention of staff have been proposed to the Office of Human Resources Management, such as the use of the Chartered Financial Analyst level 1 exam as a G to P exam within the Investment Management Service.

39. **Benchmark issues**. In the light of market developments, including the bankruptcy of Lehman Brothers, the Investment Management Service is reviewing the benchmark for the bond portfolio, incorporating the observations of the Investments Committee and the most recent asset-liability management study.

40. **Alternative asset classes**. The Investment Management Service presented a report regarding the addition of alternative asset classes to the portfolio. The report, which was prepared by Mercer Investment Consulting Inc., recommended the incorporation of private equity and hedge fund of funds into the portfolio, because the implementation of those additional asset classes would reduce the overall risk of the portfolio, as measured by standard deviation, while improving the return. In order to properly implement those additional classes, the Investment Management Service is working to develop appropriate selection and monitoring procedures and on the identification of the initial investments for both private equity and hedge fund of funds. In addition, the Investment Management Service is expanding the existing real estate advisory services to include timber and infrastructure investment advice, including emerging markets.

41. **Responsible investment**. At the fifty-third session of the Pension Board, the Investment Management Service submitted to it a report on the Principles of Responsible Investment,[3] which provides a detailed description of the principles and informed the Board of the decision of the Secretary-General to include the Pension Fund as a signatory to the Principles of Responsible Investment in their launching ceremony in April 2006. At that time, the Board encouraged the Investment Management Service to adhere to the principles to the greatest extent possible without compromising the four criteria of safety, liquidity, convertibility and profitability, which remain the Fund's paramount investment guidelines.

42. The Board confirmed its agreement in principle to responsible investment, noted that the Investment Management Service would need appropriate resources and environmental, social and corporate governance research and proxy voting services to effectively support the implementation of the principles, and expressed interest in reviewing detailed implementation plans for the following year.

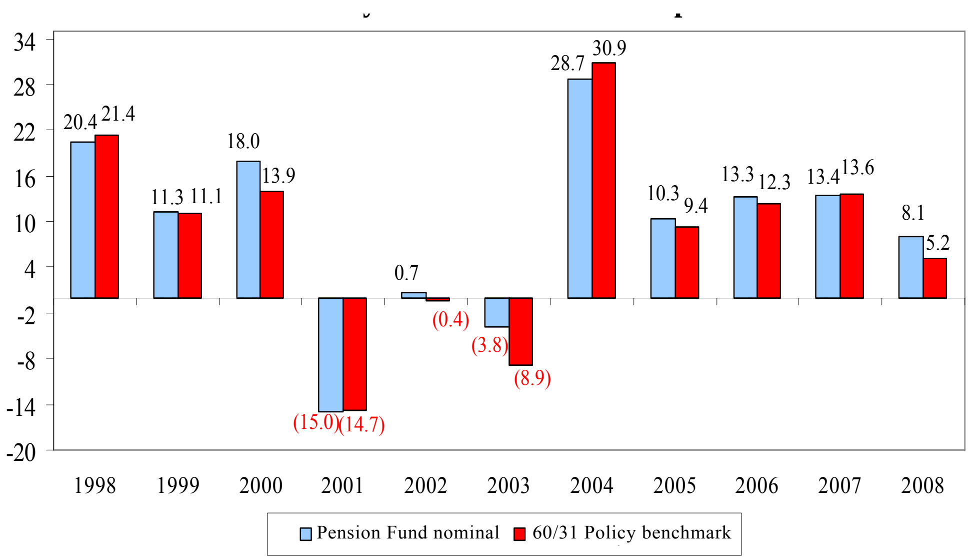
[3] JSPB/53/R.12.

43. The Pension Board welcomed the initiative for responsible investing and reconfirmed its support for those principles, subject to the four criteria for investment of the assets of the Fund — namely, safety, liquidity, convertibility and profitability. The Board requested that the Investment Management Service continue to implement this initiative within existing staffing tables and make any request for additional resources within the context of the next budget.

D. Long-term rates of return

44. During the biennium ended 31 March 2008, the United Nations Joint Staff Pension Fund encompassed the most volatile markets in its history. The outperformance of the Investment Management Service was achieved by proceeding cautiously through the ongoing financial crisis, surging prices for crude oil and food, the depreciation of the United States dollar, weakened economic growth (particularly in the United States) and global inflationary concerns. Historically, equity markets had strong positive returns from 1993 to 2000 but declined sharply in the three following consecutive years. For the past three years of 2006, 2007 and 2008, the Fund's returns were 13.3 per cent, 13.4 per cent and 8.1 per cent, respectively.

Figure 1
Fiscal year returns through 31 March: nominal return of the Fund outperforms policy benchmark in 7 out of 11 periods



45. The annualized rate of returns for the past 5, 10, 15, 20 and 25 years were approximately 14.6, 7.9, 9.4, 9.3 and 10.9 per cent, respectively. As illustrated in figure 2, the Fund exceeded the policy benchmark in all the 1 to 10-year rolling periods through 31 March 2008. The annualized total rate of return over the 48-year period for which data was available was 8.8 per cent, representing a yearly real rate of return of 4.2 per cent after adjustment by the United States.

Figure 2

Rolling year performance through 31 March 2008: Nominal return of the Fund exceeds the policy benchmark in all periods

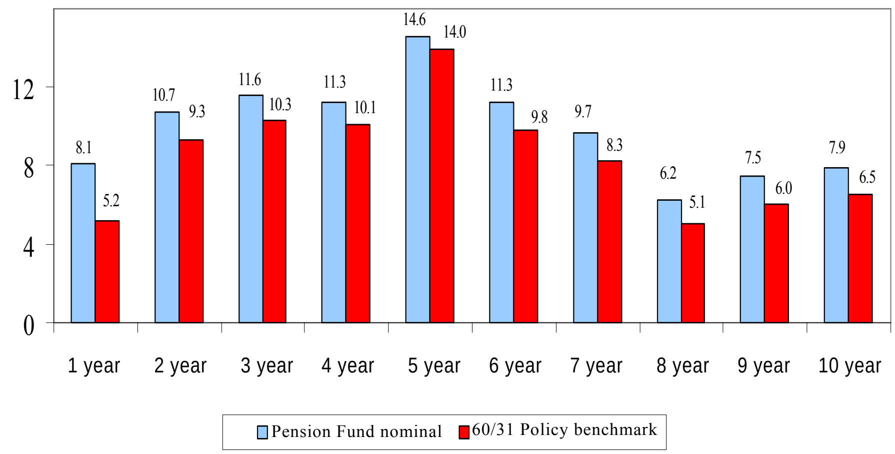


Table 4

Fund annual total rate of return

(Percentages based on market value as at 31 March)

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

	Equities				*Bonds*						
Year	*United States*	*Outside United States*	*Total*	*MSCI World Index*[a]	*United States*	*Outside United States*	*Total*[b]	*CWGBI Bond Index*[c]	*Real estate*	*Short term*	*Total Fund*
1998	(12.18)	2.15	(4.74)	5.81	3.26	20.24	12.65	11.42	9.19	7.67	3.10
1989	13.20	10.00	11.30	13.56	2.10	(5.50)	(2.40)	0.36	8.20	10.40	5.90
1990	21.54	13.21	16.57	(2.30)	10.47	2.93	6.20	3.12	12.31	9.72	11.56
1991	8.9	1.2	4.5	3.2	12.5	17.4	15.0	16.2	5.1	13.1	8.9
1992	11.3	0.1	4.9	(0.5)	13.7	14.0	14.0	14.0	(4.1)	6.5	7.6
1993	17.3	6.7	11.2	12.7	15.9	17.7	16.9	19.0	(6.6)	7.5	11.6
1994	(2.7)	24.4	12.4	14.0	3.4	10.1	7.7	6. 8	0.5	3.0	9.7
1995	11.1	6.5	8.1	9.8	2.9	18.6	12.9	12.1	0.0	5.0	8.7
1996	30.2	15.1	20.5	20.6	8.0	3.3	5.1	5.3	10.4	4.1	14.6
1997	18.9	7.2	11.6	9.8	6.2	2.5	3.6	1.2	8.6	4.4	8.9
1998	45.4	15.4	27.3	32.4	10.6	4.3	7.0	5.4	18.9	7.0	20.4
1999	18.4	9.7	13.9	13.0	4.8	9.0	6.5	10.0	4.8	9.9	11.3
2000	17.5	39.9	28.5	21.6	3.1	(5.7)	(2.5)	(0.3)	11.7	3.0	18.0
2001	(17.2)	(30.3)	(24.2)	(25.1)	13.0	(4.2)	2.0	(1.7)	11.3	4.2	(15.0)
2002	2.8	(6.1)	(1.3)	(4.2)	4.9	2.1	3.1	0.5	8.4	3.5	0.7
2003	(23.9)	(21.7)	(23.1)	(24.2)	15.9	34.9	28.4	25.2	8.5	11.1	-3.8
2004	29.3	56.5	42.5	43.9	6.8	19.4	15.7	13.5	23.9	8.1	28.7
2005	6.3	16.9	11.8	11.1	1.2	10.5	7.8	5.5	15.8	2.5	10.4
2006	13.1	28.8	21.3	18.6	2.4	-4.4	-2.8	-2.0	30.5	2.9	13.3
2006				20.3[d] *MSCIAC*				-2.6[e] *LBGA*			12.3[f] *60/31*
2007	9.5	20.5	15.7	16.4 *MSCIAC*	7.1	9.1	8.4	8.1 *LBGA*	24.5	5.5	13.4[f] *60/31*
2008	-0.6	3.9	3.4	-0.7 *MSCIAC*	8.3	18.4	15.1	15.3 *LBGA*	9.0	8.3	8.1[f] *60/31*[f]

[a] MSCI World Index consists of 22 major equity markets.
[b] The proportion of bonds held outside the United States was not significant prior to 1975.
[c] CWGBI consists of 18 major bond markets.
[d] MSCIAC returns were: 2001: (25.5) per cent, 2002: (3.1) per cent, 2003: (23.7) per cent, 2004: +46.0 per cent and 2005: +11.4 per cent.
[e] LBGA returns were: 2001: 1.6 per cent, 2002: 2.2 per cent, 2003: 19.4 per cent, 2004: 11.8 per cent and 2005: 4.9 per cent.
[f] The Strategic Asset Allocation 60/31 policy benchmark is comprised of the following components: 60 per cent MSCI All Country World Index, 31 per cent Lehman Brothers Global Aggregate Bond Index, 6 per cent NCREIF Open End Diversified Core Equity Index and 3 per cent Merrill Lynch 91-day Treasury bill.

Table 5
Fund annual rates of return based on market value
(Percentages for selected periods ending 31 March 2008)

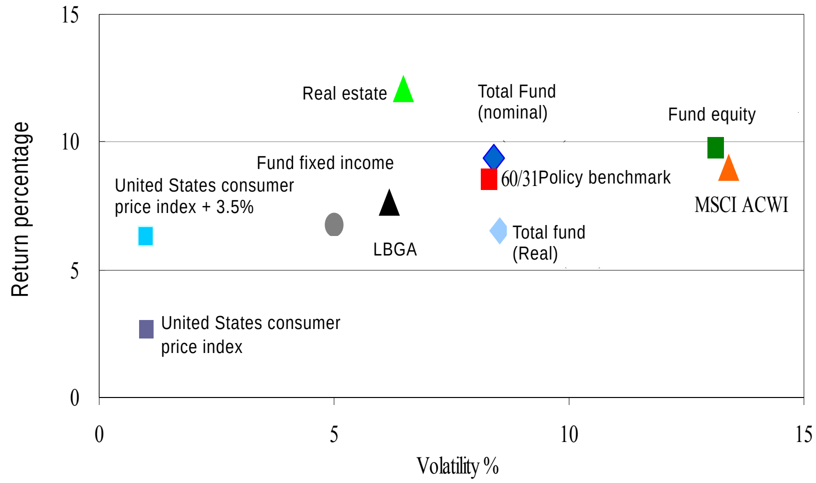
		2008	*2007*	*2006*	*5 years through 2008*	*10 years through 2008*	*15 years through 2008*
	United States equities	-0.6	9.5	13.1			
	Equities outside United States	3.9	20.5	28.8			
Total equities		3.4	15.7	21.3	18.3	6.9	9.8
	United States bonds	8.3	7.1	2.4			
	Bonds outside United States	18.4	9.1	-4.4			
Total bonds		15.1	8.4	-2.8	8.6	7.8	7.6
Real estate related		9.0	24.5	30.5	20.4	14.5	12.1
Short-term investments		8.3	5.5	2.9	5.4	4.8	3.2
Total Fund in United States dollars		8.1	13.4	13.3	14.6	7.9	9.4
Inflation-adjusted return (based on United States consumer price index)		4.0	10.3	9.6	11.2	4.9	6.5

E. Risk-return profile

46. Over the past 15 years, the Fund's average annual return of 9.4 per cent was higher than the benchmark return of 8.6 per cent, but the Fund's volatility of 8.4 per cent was slightly higher than that of the benchmark 8.3 per cent volatility. The Fund had a better risk-return profile because it has a well diversified portfolio that includes all major asset classes and securities.

47. Within asset classes, the Fund's equity portfolio return of 9.8 outperformed the MSCI AC World Index return of 9.0, but the Fund's equity portfolio had a much better risk profile (13.1 per cent) compared with that index (13.4 per cent). The bond portfolio (with 15-year average return of 7.6 per cent) outperformed the Lehman Global Aggregate Index (6.8 per cent) but had higher volatility (6.2 per cent) compared with the Lehman Index (5.0 per cent).

Figure 3
UNJSPF 15-year risk/return profile vs. indices through 31 March 2008



VI. Investments in developing countries

48. On 22 December 2006, the General Assembly adopted resolution 61/240 on the United Nations pension system. Paragraph 1 of section IX of the resolution, entitled "Diversification" reads as follows:

> "*Recalling* its resolutions 36/119 A to C of 10 December 1981,
>
> *Takes note with concern* of the modest increases in investments of the United Nations Joint Staff Pension Fund in developing countries, and requests the Secretary-General to report to the General Assembly at its sixty-third session on further steps and efforts undertaken to increase, to the maximum extent possible, investments in developing countries".

49. The Fund continued to make efforts to investments 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 $3.9 billion on 31 March 2008, an increase of 110 per cent from $1.8 billion at cost on 31 March 2006. The increases were in the regions of Africa (76 per cent), Asia (166 per cent) and Latin America (59 per cent). New investments were initiated in development institutions in Latin America and substantial increases in investments in Argentina, Malaysia, Qatar, Singapore and South Africa. Development-related investments accounted for approximately 12.6 per cent of the Fund's assets at book value. Table 3 shows the Fund's investments in developing countries by book value in 2006 and 2008.

50. The Investment Management Service 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 those markets in search of suitable investment instruments while taking into account the overall investment criteria and strategy of

the Fund. It also continues to explore opportunities in sovereign debt where credit quality has improved.

Table 6
Development-related investment: book value as at 31 March 2008 and 31 March 2006
(in thousands of United States dollars)

	Book value		*Market value*		*2-year annualized return (percentage)*
Region	*Total 2006*	*Total 2008*	*Total 2006*	*Total 2008*	
Africa					
Egypt	23 435	24 609	23 075	35 421	43.68
South Africa	174 125	331 946	276 207	411 056	0.87
Regional funds	20 570	91 198	120 452	221 651	n/a
Subtotal	**218 130**	**447 753**	**419 734**	**668 128**	
Development institutions	69 926	59 348	72 303	69 628	n/a
Total Africa	**288 056**	**507 101**	**492 037**	**737 756**	
Asia					
China	282 246	376 086	369 840	646 970	42.66
India	60 410	145 116	89 217	231 161	39.39
Jordan	7	0	0	0	0.00
Malaysia	32 069	606 909	41 560	661 941	40.51
Qatar	14 144	28 626	13 628	29 737	0.00
Republic of Korea	319 400	637 088	495 849	762 987	10.58
Singapore	102 594	625 499	137 750	747 995	24.57
Regional funds	66 254	3 804	171 229	339 504	n/a
Subtotal	**877 124**	**2 393 128**	**1 319 073**	**3 420 295**	
Development institutions	52 929	83 102	49 277	86 693	n/a
Total Asia	**930 053**	**2 476 230**	**1 368 350**	**3 506 988**	
Europe					
Cyprus	43 817	26 229	63 818	50 214	n/a
Turkey	44 065	61 176	46 743	73 475	12.79
Subtotal	**87 882**	**87 405**	**110 561**	**123 689**	
Development institutions	0	0	0	0	0.00
Total Europe	**87 882**	**87 405**	**110 561**	**123 689**	
Latin America					
Argentina	2 046	6 720	2 010	8 886	13.23
Brazil	69 731	95 951	175 653	327 669	42.24

Region	*Book value* Total 2006	*Book value* Total 2008	*Market value* Total 2006	*Market value* Total 2008	*2-year annualized return (percentage)*
Chile	37 846	37 846	47 335	58 378	20.99
Mexico	250 687	448 786	310 735	595 490	20.51
Regional funds	30 564	0	30 625	0	0.00
Subtotal	**390 874**	**589 303**	**566 358**	**990 423**	
Development institutions	0	30 565	0	31 476	n/a
Total Latin America	**390 874**	**619 868**	**566 358**	**1 021 899**	
Other development funds					
International Bank for Reconstruction and Development	78 595	101 338	95 678	163 342	n/a
Fiduciary Emerging Market Bond Fund	21 599	21 600	33 154	37 541	n/a
Emerging Market Middle East Fund	15 000	17 265	16 110	26 659	28.16
Emerging Market Investors Fund	30 501	30 501	91 313	93 049	15.90
Total other development funds	**145 695**	**170 704**	**236 255**	**320 591**	
Grand total	**1 842 560**	**3 861 308**	**2 773 561**	**5 710 923**	

VII. Conclusion

51. The Pension Fund has performed steadily, in excess of its benchmarks, during the unprecedented volatility of the past year. Given the serious economic strains in the world economy, the goals will be to focus on profitability and capital preservation through strengthened systems.