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United Nations pension system

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

Report of the Secretary-General

I. Introduction

1. The management of the investment 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 Investments Committee, taking into account the broad policy observations of the General Assembly and the observations and suggestions made from time to time by the United Nations Joint Staff Pension Board on investment policy. The Investments Committee provides advice on investment strategy and reviews the investments of the Fund at its quarterly meetings. All investments must, at the time of initial review, meet the criteria of safety, profitability, liquidity and convertibility. A new Representative of the Secretary-General for the investment of the assets of the Fund was appointed by the Secretary-General and took office in January 2018. He has been delegated the responsibility and authority to act on behalf of the Secretary-General in all matters involving the fiduciary duties of the Secretary-General relating to the investment of the assets of the Fund. The Representative is assisted by the staff of the Office of Investment Management. In response to a recommendation of the Office of Internal Oversight Services (OIOS), the Secretary-General has agreed to rename the Investment Management Division the Office of Investment Management, since the role of the Representative is now a full-time position and is at the level of Assistant Secretary-General.

2. In section VIII, paragraph 7, of its resolution 68/247 B, the General Assembly requested the Secretary-General to provide information on the performance of his Representative in discharging his or her responsibilities. Accordingly, the present report includes information related to the performance of the Representative of the Secretary-General, which is assessed through his compact with the Secretary-General, covering programmatic objectives and managerial targets.

* A/73/150.

3. The present report provides information on the management of the investments of the Fund during the biennium 2016–2017, as well as information on investment returns, diversification of investments and development-related investments of the Fund.

II. Changes during the biennium

4. During the biennium ended 31 December 2017, the Fund's market value of assets increased $12.02 billion, or approximately 23.1 per cent (arithmetic calculation). As at 31 December 2017, the Fund successfully met or exceeded its real rate of return objective for long-term investments of 3.5 per cent over the past 1, 2, 3, 5, 15, 20, 25 and 50 years. The Fund's nominal return exceeded the return of its policy benchmark over the past year but was lower than the policy benchmark over the past two years. Please refer to section VI.A for a detailed performance review.

5. The investment performance of the Fund is reported in United States dollars, in both real and nominal terms, both of which are time-weighted investment returns. The real rate of return is equal to the nominal rate of return minus inflation, as measured by the United States consumer price index (CPI). The long-term investment objective of the Fund is its actuarial return assumption (currently a 3.5 per cent real rate of return). The Fund uses a policy benchmark to measure its near-term relative performance. The policy benchmark is a weighted average of the target weightings and the benchmarks for each asset class. The Fund's current policy benchmark was updated on 1 August 2015, subsequent to the conclusion of the asset and liability management study and consistent with the adoption of the new strategic asset allocation.

6. The Fund's asset class weightings as at 31 December 2017 were relatively close to the target weightings in the strategic asset allocation, owing to periodic rebalancing. The Fund's tactical tilt represents the near-term ranges for each asset class, which are narrower than the strategic asset allocation target ranges. The tactical tilt ranges are reviewed with the Investments Committee on a quarterly basis (see table 1).

Table 1
Asset allocation as at 31 December 2017
(Percentage)

	Strategic asset allocation		*Tactical tilt*	
Asset class	*Range*	*Policy*	*Range*	*Actual*
Global equities	50–69	58.0	52–64	61.98
Real assets	3–10	9.0	4–10	6.54
Alternative investments	0–10	5.0	2–8	3.55
Global fixed income	19–37	26.5	22–31	24.54
Cash and short term	0–6	1.5	0–6	3.40
Total	**100**			**100**

Note: numbers may not add up owing to rounding.

7. The Fund typically conducts an asset and liability management study at four-year intervals. The next study will be conducted in 2019, and the strategic asset allocation will be reviewed accordingly.

8. As at 31 December 2017, the allocation to global equity was 61.98 per cent, compared with a target of 58 per cent. This overweight in global equity is temporary, owing to the current underweight positions in alternative investments and real assets. Investments in real assets and alternative investments were 6.54 per cent and 3.55 per cent as at 31 December 2017, compared with target levels of 9 per cent and 5 per cent, respectively. Alternative investments and real assets are equity-like asset classes, and global equity is serving as a temporary substitute for those asset classes until the target allocations in them are achieved. The combined target weighting for global equity, alternative investments and real assets is equal to 72 per cent. The combined weighting of those three equity-oriented asset classes was 72.07 per cent, which was very close to the combined target of 72 per cent.

9. As at 31 December 2017, 61.98 per cent of the Fund was invested in global equity. Global emerging and frontier markets was modestly overweighted relative to other regions within the Morgan Stanley Capital International (MSCI) All Country World Index (ACWI) benchmark.

10. As at 31 December 2017, 24.5 per cent of the Fund's assets was invested in global fixed income. The weight varied over the biennium but remained consistently below the 26.5 per cent target weighting based on the strategic asset allocation. The global fixed-income portfolio was underweight relative to its benchmark in United States dollars and British pounds sterling. The portfolio had relatively neutral positioning in Japanese yen and the euro and was overweight relative to the Mexican peso, the New Zealand dollar, the Norwegian krone, the Polish zloty, the Australian dollar, the Republic of Korea won, the Hungarian forint, the Czech koruna and the Malaysian ringgit.

11. As at 31 December 2017, 6.5 per cent of the Fund was invested in real assets. Commercial real estate markets experienced an acceleration in investment activity. During the biennium, the Office of Investment Management made 21 real estate commitments totalling $1.7 billion. They consisted of 12 commitments in the United States of America totalling $950 million, 4 in Asia totalling $350 million, 4 in Europe totalling $344 million and 1 in Brazil for $50 million. The strategic asset allocation, which was implemented on 1 August 2015, has a target weighting of 9 per cent for real assets. The investments will be increased gradually and judiciously over time to achieve this target.

12. As at 31 December 2017, 3.55 per cent of the Fund was invested in alternative investments. During the biennium, the Fund's alternative investments included allocations to private equity and commodities. The Fund had commitments of $4.6 billion to 54 private equity funds managed by 34 distinct managers. During the biennium, the Fund committed $1.66 billion to 18 private equity funds. The fair market value of the Fund's private equity portfolio was $2.3 billion. Approximately $2.1 billion represents unfunded commitments expected to be deployed in the next four to five years. The net internal rate of return for the Fund's private equity portfolio was 13.1 per cent since its inception in June 2010. The Fund's private equity portfolio outperformed the public equities benchmark by 250 basis points and outperformed the private equity benchmark by 150 basis points. The Fund's small allocation to commodities funds outperformed the Bloomberg Commodity Index during the biennium. The Fund's allocation to commodities is meant to provide a means of hedging against inflation risk. For the biennium, the Fund's investment in commodities returned 7.7 per cent, better than the Bloomberg Commodity Index benchmark return of 6.6 per cent.

13. As at 31 December 2017, the allocation to cash and short-term instruments represented 3.4 per cent of the Fund's assets. This weight was within the allowable range for cash and equivalents; however, it was above the strategic asset allocation target of 1.5 per cent.

14. The Office of Investment Management successfully filled all senior management positions in 2017 and reduced vacancies significantly. As at 31 December 2017, there were eight vacancies, of which six were Professional and two were General Service posts.

15. Staff of the Operations and Information Systems Section, Office of Investment Management, worked closely with the implementation team, consultants, the custodian banks and the master record keeper to successfully complete the implementation of the Bloomberg Asset and Investment Manager system (AIM) and its integration with additional trading platforms, such as FXGO (for global foreign exchange transactions) and FIT (for electronic trading of fixed-income instruments) during the biennium. These trading platforms also provide middle- and back-office solutions to improve the automation of the settlement and reconciliation processes. In addition, the implementation of the Depository Trust and Clearing Corporation global system solutions for clearing trades at major exchanges and markets using its electronic trade confirmation/affirmation tools, Central Trade Matching and OASYS, for equities and bonds, was successfully integrated with Bloomberg AIM. The implementation of the Bloomberg system enabled the middle-office team to perform confirmations and affirmations for fixed-income transactions through the Depository Trust and Clearing Corporation's Omgeo or through Bloomberg's VCON, or voice confirmation, system for brokers that are not Omgeo enabled, thus achieving a higher rate of straight-through-processing for trade confirmations and affirmations. The Section also implemented ALERT, which is used to store the Fund's standing settlement instructions. Finally, the back-office team successfully implemented the reconciliation module of Bloomberg AIM.

16. After the successful implementation of the first phase of Bloomberg AIM, in early 2016, the operations team continued its implementation of the Bloomberg foreign exchange confirmation matching and settlement system to automate foreign exchange deal-matching and generate its respective SWIFT messages for secure and standard confirmations with counterparties. The team also implemented CLS Settlement for eligible currencies at one of the Fund's custodians in early January of 2017.

17. The Office of Investment Management developed a target operating model with the assistance of a specialized consulting firm — a vendor with a deep background in asset management — and has outlined a multi-year road map and operating model for the longer-term information technology needs of the Office. This work was completed at the end of 2017. The Office of Investment Management is now moving into the implementation phase of the road map, which involves specific projects and deliverables that will be part of the work of implementing the target operating model. The Office of Investment Management is working on further modernizing its information and communications technology (ICT) infrastructure and applications to better support the Fund's investment activities as the Fund continues to grow in both size and complexity. The Office of Investment Management established the ICT Steering Committee in November 2014 and created the executive post of Chief Operating Officer in acknowledgement of the importance of ICT to the Office. The multidisciplinary committee members of the Steering Committee work with the Chief Operating Officer, who is accountable to the Representative of the Secretary-General on ICT matters. The Senior Information Systems Officer spearheads the information technology initiatives and supervises the information technology team under the leadership of the Chief Operating Officer. The planning horizon for an information technology strategy is aligned with the rest of the business as part of the Office's overall strategy. One important task of the Chief Operating Officer and the ICT Steering Committee is to continue calibrating and aligning with the strategy of the Office the multiple components of information technology throughout each planning horizon.

18. The Office of Investment Management has a global tax adviser to assist the Fund in its tax-recovery efforts. As at 31 December 2017, the Fund had received tax rulings confirming its tax-exempt status in 31 jurisdictions, in conformity with the Convention on the Privileges and Immunities of the United Nations. Relief from tax at the source is the best solution because it eliminates the risk of adverse currency fluctuations or foregone income when cash is withheld from the Fund. It also reduces the administrative burden of filing for refunds of withholding tax. As part of the tax exemption application process, the Fund is also requesting that the exemption extend to all taxes related to securities transactions, including stamp duty. During the biennium 2016–2017, this effort was successful and has been confirmed in France and South Africa, with the result that $1.2 million in historical withholdings and unquantifiable savings related to all future transactions was reclaimed. Under the reclaim process, the Fund received $32.3 million during the biennium 2016–2017 and is pursuing receivables of $38.8 million as at 31 December 2017. Furthermore, the Fund is pursuing the recovery of $7.6 million in historical American depository receipt tax withheld in Brazil, Chile, Israel and the Russian Federation.

19. The Office of Investment Management appointed a third party to undertake a currency management study in 2017, the final report on which was delivered in February 2018. The draft study was discussed with the Investments Committee in November 2017. The management of the Office accepted the main conclusions of the study and formulated the following strategies to better manage currency exposures:

(a) It arranged for a third-party analysis of both the hedged and unhedged Bloomberg Barclays Aggregate Indices and a comparison with Bloomberg Barclays United States Aggregate Index for 1990–2017. This study will be used when reconsidering the benchmark for fixed income;

(b) It issued a statement of work for an asset and liability management study in March 2018, including the requirement to specifically take the currency profile of the liabilities into account. This will help to achieve a better alignment between currency exposures of the assets and the liabilities of the Pension Fund. The Office of Investment Management will also expedite a study of benchmarks as part of the study;

(c) It implemented cash currency buckets for all the main currencies for pension benefit payments in multiple currencies. An active cash flow matching strategy will be deployed to reduce currency exposure and the need for trading of currencies in this portfolio;

(d) It is in the process of changing the benchmark for the cash portfolio into United States dollars only. The fixed-income team has been instructed to minimize currency exposures in the short-term cash portfolio. However, managing a multi-currency global investment portfolio will always result in some short-term multi-currency cash flows resulting from buying and selling non-United States dollar investments as well as corporate actions (e.g. coupons, dividends, etc.).

20. The objective of the Office of Investment Management is to optimally manage currency exposures at the total Fund level from an assets and liabilities balance sheet perspective by taking advantage of global diversification benefits in the assets portfolio and minimizing uncompensated currency exposures wherever operationally feasible. However, its investment objective is not to specifically minimize foreign exchange accounting profits and losses but rather to meet or exceed the long-term real rate of return requirement of 3.5 per cent in dollar terms. The Office is pleased to report that this objective has been met for 1, 3, 5, 15, 20, 25 and 50 years, on a time-weighted basis, as at 31 December 2017. Only the 10-year period is lower than the long-term objective of 3.5 per cent, by 0.4 per cent, because that coincided with the financial crisis in 2008.

21. The Office of Investment Management engaged with a third-party service provider in 2017 to undertake an independent review of the Pension Fund's main practices with respect to investment management and risk management. The study contains a detailed checklist of the Fund's practices compared with industry standards. The report states that, from a holistic view of the practices considered, a review shows that the majority of leading practices are already incorporated into Fund practices.

22. The Office of Investment Management is pleased to report that the majority of the independent review's recommendations have been implemented or are in the process of being completed in the second quarter of 2018. The key areas of implementation include:

(a) The Representative of the Secretary-General adopted and approved a formal rebalancing policy;

(b) The Office established a Risk Committee, a Compliance Committee and an Internal Investment Committee to further institutionalize oversight and decision-making processes;

(c) The Office implemented strategic risk reporting at the Fund level;

(d) The Office recruited a Deputy Director for risk and compliance;

(e) The Office improved risk-reporting capacity;

(f) The Office developed a customized equity benchmark in cooperation with MSCI to reflect restrictions on investment in tobacco and armaments.

23. It is pertinent to note that the Office of Investment Management is operating under significant resource constraints, with no additional new posts for the 2018–2019 biennium. Third-party studies have shown that the current investment costs of the Office are 37 per cent lower than the median costs for 18 other global pension fund peers. In this context, management is working with very limited resources to address the recommendations of OIOS, the Board of Auditors and the independent review, in addition to carrying out other projects and the day-to-day management of investments.

III. Economic review

24. During the biennium ended December 2017, both the United States and Canadian economies continued to expand. The United States economy achieved a rate of real (inflation-adjusted) gross domestic product (GDP) growth of 2.2 per cent on an annual basis in 2017, compared with 1.5 per cent in the prior year. The rate of nominal economic expansion improved to the average annual rate of 4.2 per cent, compared with 2.7 per cent in the prior year. The rate of United States unemployment continued to decline in 2017 with a post-financial crisis low of 4.1 per cent, compared with 4.7 per cent the previous year.

25. Economic conditions in Europe improved during the biennium, with signs of stabilization and some gradual improvement in labour markets and GDP exceeding 2.0 per cent. The European Central Bank continued with its stimulus policies, including record low interest rates, purchases of sovereign debt and the lending programme. Equity markets reacted favourably to the reduction in macro risks and supportive monetary policy. The equity markets, measured in local currency terms, were strong during the biennium.

26. In 2017, the Japanese economy delivered real GDP growth of 1.7 per cent, accelerating from 1.0 per cent growth in 2016. The core CPI (excluding fresh foods)

registered four consecutive quarters of year-on-year growth in 2017, reversing a declining trend since the consumption tax hike in 2014. However the core CPI achieved only 0.5 per cent growth, well below the Bank of Japan's 2 per cent target, despite its effort to further raise inflation expectations.

27. Economic growth in emerging markets grew by an estimated 4.5 per cent. Emerging markets started 2016 on a weak note but improved owing to better commodity prices, a steadier United States dollar and a more robust Chinese economy. Economic growth in Brazil and the Russian Federation turned from negative to positive. Despite increasing concerns about the United States Federal Reserve interest rate hikes, the impact on emerging markets has been limited so far, partly because the normalization of monetary policy in the United States was anticipated and owing to stronger fundamentals in major emerging countries.

28. During the biennium, yields in global bond markets were mixed. In the United States, Treasury yields ended higher, while in Europe, the United Kingdom of Great Britain and Northern Ireland and Japan, government bond yields ended lower. There was volatility in bond yields throughout the biennium as the market digested geopolitical risks, surprise political results, changes in central bank communications, expectations of an increasing use of fiscal policy after years of restraint and better global growth. Yields remained negative in Japan and all across Europe, including both euro and non-euro countries, excluding Norway. This was due to low inflation and central bank policies. Foreign exchange markets were also volatile over the period. Towards the end of 2016, the United States dollar appreciated owing to the expectation of Federal Reserve rate hikes and pro-growth policies from the new administration. However, over 2017 the dollar depreciated against most currencies. As measured by the Dollar Index spot price, over the biennium the dollar depreciated by approximately 6.6 per cent.

IV. Diversification

29. The Fund's policy of broadly diversifying its investments by currency, type of asset class and geographical area continues to be a reliable strategy for improving the risk-return profile of the Fund over the long term. The Fund is unique among major pension funds in its commitment to diversifying its portfolio on a fully global basis.

By asset class

30. The policy asset mix is composed of the following target weightings by asset class: 58 per cent for equities, 26.5 per cent for fixed income, 9 per cent for real assets, 5 per cent for alternative strategies and 1.5 per cent for cash and short-term assets. The Fund is in the process of gradually building its exposure to alternative investments and real assets to further optimize the Fund's risk-return profile. Most of this growth will be in private equity, real estate and infrastructure. At the end of calendar years 2016 and 2017, equities were above the strategic asset allocation policy target. At the end of 2016, the equity weighting was 63.2 per cent and the strategic asset allocation target for equity was 58 per cent. At the end of 2017, the equity weighting was 61.9 per cent and the strategic asset allocation target weighting was 58 per cent. On 31 December 2016, the fixed-income weighting was 22.8 per cent compared to a target of 26.5 per cent. On 31 December 2017, the weighting for fixed-income assets was 24.5 per cent of the Fund. Exposure to real assets was 7.1 per cent of the Fund on 31 December 2016 and 6.5 per cent as at 31 December 2017. The target weighting for real assets was 9 per cent of the Fund. As at 31 December 2017, the Fund's private equity weighting was 3.5 per cent of the Fund. Cash and short-term investments represented 3.8 per cent of Fund assets on 31 December 2016 and

ended the biennium on 31 December 2017 at 3.4 per cent. The Fund and its investment portfolios are rebalanced periodically throughout the year in order to adhere closely to the strategic asset allocation target weightings for each asset class.

By currency

31. As at 31 December 2017, the Fund was well diversified in terms of currency. In total, the Fund's direct investments across all asset classes included 26 currencies, of which 55.8 per cent were in United States dollars and 44.2 per cent were in non-dollar currencies. The global equity portfolio was invested in 22 different currencies through direct investments, 56.6 per cent of which were in United States dollars and 43.4 per cent of which were denominated in non-dollar currencies. The fixed-income portfolio was invested in 19 different currencies through direct investments, 42.1 per cent of which were in United States dollars and 57.9 per cent of which were in non-dollar currencies.

By geography

32. The proportion of the total Fund, based on market value across all asset classes, that is invested in North America decreased to 50.6 per cent in December 2017, from 53.4 per cent in December 2015. Investments in Europe marginally increased to 22.8 per cent from 22.7 per cent, while in Asia and the Pacific the proportion of investments increased to 19.2 per cent from 14.8 per cent. In terms of the number of countries, as at 31 December 2017, the Fund had investments in 100 countries and six regions,[1] including both direct and indirect investments in both developed and developing countries. Direct investments were as follows: a total of 45 countries, with direct fixed-income investments in 34 countries and direct equity investments in 40 countries. Indirect investments in additional countries were made through international institutions, externally managed funds in emerging and frontier markets and exchange-traded funds. Based on categorization by MSCI, the public equity portfolio includes 24 countries/markets in emerging markets and 29 countries in frontier markets.

V. Investments in developing countries

33. The Office of Investment Management makes every effort to comply with the requests of the General Assembly in its resolutions 36/119 A–C to increase the geographic diversification of the Fund's investments in developing countries. Investments by the Fund in emerging and frontier markets are an increasingly important part of the Fund's strategy, owing to long-term growth opportunities in those markets. The Fund's developing market investments are made wherever they are consistent with the best economic interests of the Fund's participants and beneficiaries, taking into account the Fund's four main criteria for investment: safety, liquidity, convertibility and profitability.

34. Direct and indirect investments in developing countries amounted to \$6.62 billion at cost as at 31 December 2017, an increase of approximately 13.1 per cent from \$5.85 billion at cost as at 1 January 2016. In addition, the Fund has made commitments for future investments. The Fund has \$1,075 million committed to 14 private equity funds in emerging and frontier markets (see table 2).

[1] Regions are geographical entities that are not States members of the United Nations.

Table 2
Book value and market value of development-related investments, 2016 and 2017
(Thousands of United States dollars)

	31 December 2017		*1 January 2016*	
	Cost	*Market value*	*Cost*	*Market value*
Africa				
Egypt	–	–	–	–
South Africa	137 651	306 843	91 000	137 729
Regional funds	121 740	92 004	185 031	137 469
Subtotal	**259 391**	**398 847**	**276 030**	**275 197**
Development institutions	33 249	40 649	54 487	63 955
Subtotal, Africa	**292 640**	**439 495**	**330 517**	**339 153**
Asia				
China	1 140 993	1 760 977	648 513	786 749
Hong Kong China	332 401	496 382	226 046	303 484
Taiwan Province of China	290 543	463 692	275 034	343 666
India	275 348	361 667	222 227	282 674
Indonesia	107 218	109 611	85 386	63 098
Malaysia	361 490	368 587	275 735	214 881
Qatar	121 934	114 749	23 832	18 966
Republic of Korea	934 540	1 217 518	671 597	737 916
Saudi Arabia	84 314	84 288	0	0
Singapore	223 628	275 275	212 168	220 255
Thailand	130 105	151 120	68 455	54 906
United Arab Emirates	39 904	34 626	12 686	8 005
Regional funds	327 349	513 674	285 287	368 153
Subtotal	**4 369 767**	**5 952 166**	**3 006 968**	**3 402 753**
Development institutions	37 647	38 921	55 912	52 158
Subtotal, Asia	**4 407 414**	**5 991 086**	**3 062 881**	**3 454 911**
Europe				
Cyprus	0	0	0	0
Latvia	4 456	4 729	0	0
Turkey	58 805	46 857	46 137	36 118
Regional funds	0	0	0	0
Subtotal	**63 261**	**51 585**	**46 137**	**36 118**
Development institutions	310 876	314 290	629 379	580 081
Subtotal, Europe	**374 137**	**365 876**	**675 516**	**616 198**
Latin America				
Argentina	0	0	0	0
Brazil	420 833	460 068	335 763	181 768
Chile	90 840	112 872	55 718	57 087

	31 December 2017		1 January 2016	
	Cost	Market value	Cost	Market value
Colombia	0	0	39 704	37 854
Mexico	460 536	400 696	602 914	499 379
Peru	18 402	23 868	0	0
Venezuela (Bolivarian Republic of)	0	0	0	0
Regional funds	0	0	0	0
Subtotal	**990 609**	**997 505**	**1 034 098**	**776 089**
Development institutions	160 750	166 024	151 101	150 104
Subtotal, Latin America	**1 151 359**	**1 163 529**	**1 185 198**	**926 193**
Other development-related funds				
Fiduciary Emerging Market Bond Fund	26 902	48 556	26 902	44 150
Inter-American Development Bank	18 277	17 579	42 814	36 964
International Bank for Reconstruction and Development	87 245	94 345	249 226	263 569
International Finance Corporation	24 490	24 065	47 500	42 539
International Finance Corporation African Latin American and Caribbean Fund	87 042	59 352	119 258	104 091
International Finance Corporation Global Infrastructure Fund	26 269	22 107	19 746	17 682
International Finance Facility for Immunization	–	–	–	–
Nordic Investment Bank	64 500	67 307	31 896	31 130
Frontier markets	30 806	33 577	30 806	25 214
Emerging Markets Minimum Volatility	–	–	–	–
Emerging Markets Middle East Fund	33 262	54 902	34 917	59 789
Emerging Market Investors Fund	–	–	–	–
Subtotal, other development-related funds	**398 793**	**421 790**	**603 065**	**625 129**
Total	**6 624 343**	**8 381 777**	**5 857 178**	**5 961 584**

Note: Book values and market values exclude cash holdings for all countries/regions. Effective 1 January 2012, all investments of the Fund are designated at fair value through surplus and deficit in accordance with the International Public Sector Accounting Standards.

35. Areas of the Fund's investments are shown in tables 3, 4 and 5.

Table 3
Total Fund market value of investments by country/area as at 31 December 2017
(Millions of United States dollars)

Country/region	*Total Fund*	*Percentage*
North America		
Canada	2 156 825 623	3.36
United States	28 230 333 068	44.02
External small capitalization	1 896 904 435	2.96
North America region	170 037 359	0.27
Subtotal, North America	**32 454 100 484**	**50.60**

Country/region	*Total Fund*	*Percentage*
Europe		
Austria	80 053 063	0.12
Belgium	208 730 002	0.33
Denmark	131 405 883	0.20
Euro[b]	135 507 747	0.21
Finland	262 684 447	0.41
France	2 298 415 404	3.58
Germany	1 848 375 917	2.88
Ireland	189 667 738	0.30
Italy	678 738 125	1.06
Netherlands	804 362 027	1.25
Norway	292 753 181	0.46
Portugal	6 808 837	0.01
Spain	671 736 192	1.05
Sweden	831 980 938	1.30
Switzerland	1 035 247 149	1.61
United Kingdom	2 751 011 807	4.29
External small capitalization	972 775 679	1.52
Europe region	570 196 922	0.89
Subtotal, Europe	**13 770 451 057**	**21.47**
Europe emerging markets[b]		
Czechia	110 321 344	0.17
Estonia	37 238 523	0.06
Hungary	86 370 629	0.13
Greece[a]	111 043	0.00
Latvia	4 728 624	0.01
Poland	367 113 468	0.57
Turkey	32 725 552	0.05
Russian Federation	226 991 321	0.35
Subtotal, Europe emerging markets	**865 600 504**	**1.35**
Asia and the Pacific emerging markets[b]		
China	2 721 051 539	4.24
India	361 671 180	0.56
Indonesia	109 611 296	0.17
Malaysia	369 453 764	0.58
Philippines	79 681 369	0.12
Republic of Korea	1 217 517 967	1.90
Thailand	151 120 267	0.24
Subtotal Asia and the Pacific emerging markets	**5 010 107 383**	**7.81**

Country/region	*Total Fund*	*Percentage*
Asia and the Pacific		
Australia	1 273 263 092	1.99
Japan	5 483 399 682	8.55
New Zealand	34 580 831	0.05
Singapore	275 288 656	0.43
External small capitalization	227 627 182	0.35
Subtotal, Asia and the Pacific	**7 294 159 444**	**11.37**
Africa		
South Africa	306 856 673	0.48
Regional Africa	132 652 695	0.21
Subtotal Africa	**439 509 368**	**0.69**
Latin America and the Caribbean		
Brazil	460 407 437	0.72
Chile	118 875 353	0.19
Mexico	400 739 848	0.62
Peru	23 867 550	0.04
Subtotal, Latin America and the Caribbean	**1 003 890 188**	**1.57**
Middle East		
Israel	13 471 422	0.02
Kuwait	100 050 570	0.16
Qatar	114 748 527	0.18
Saudi Arabia	84 287 742	0.13
United Arab Emirates	34 625 880	0.05
Regional Middle East	54 902 369	0.09
Subtotal, Middle East	**402 086 511**	**0.63**
Other		
Emerging markets[b]	139 054 655	0.22
International[b]	2 171 325 874	3.39
Regional Asia	552 594 394	0.86
Regional frontier	33 577 046	0.05
Subtotal, other	**2 896 551 970**	**4.52**
Total	**64 136 456 908**	**100.00**

Note: Total value includes cash holdings by currency of country/region. Country of investment is generally based on the domicile of the issuer. Convertible securities are classified by the security into which they are convertible.

[a] Investments of less than 0.01 per cent of the total Fund.

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

Table 4
Pension Fund investments in developed markets as at 31 December

	Equities		*Fixed income*	
	2015	*2017*	*2015*	*2017*
Australia	✓	✓	✓	✓
Austria	✓	✓	–	✓
Belgium	✓	✓	✓	✓
Canada	✓	✓	✓	✓
Denmark	✓	✓	✓	✓
Finland	✓	✓	✓	✓
France	✓	✓	✓	✓
Germany	✓	✓	✓	✓
Ireland	✓	✓	✓	✓
Israel	✓	✓	–	–
Italy	✓	✓	✓	✓
Japan	✓	✓	✓	✓
Luxembourg	–	✓	–	–
Netherlands	✓	✓	✓	✓
New Zealand	✓	–	✓	✓
Norway	✓	✓	✓	✓
Portugal	–	✓	–	–
Singapore	✓	✓	✓	✓
Spain	✓	✓	✓	✓
Sweden	✓	✓	✓	✓
Switzerland	✓	✓	✓	✓
United Kingdom	✓	✓	✓	✓
United States	✓	✓	✓	✓
Total	**21**	**22**	**19**	**20**

Note: Classification based on MSCI definition of developed markets.

Table 5
Pension Fund equity and fixed-income investments in emerging markets as at 31 December

	Equities			*Fixed income*	
	2015	*2017*		*2015*	*2017*
Argentina	–	✓	Albania	✓	–
Bahrain	✓	✓	Angola	✓	✓
Bangladesh	–	✓	Argentina	✓	✓
Botswana	✓	✓	Armenia	✓	✓
Brazil	✓	✓	Azerbaijan	✓	✓
Burkina Faso	✓	–	Belarus	–	✓
Chile	✓	✓	Bosnia and Herzegovina	✓	✓
China	✓	✓	Brazil	✓	✓
Côte d’Ivoire	✓	✓	Cameroon	✓	✓
Croatia	–	✓	Chad	–	✓

Egypt	✓	✓
Ghana	✓	✓
Greece	–	✓
India	✓	✓
Indonesia	✓	✓
Jordan	✓	✓
Kazakhstan	–	✓
Kenya	✓	✓
Kuwait	✓	✓
Lebanon	✓	–
Malawi	✓	✓
Malaysia	✓	✓
Mauritius	✓	✓
Mexico	✓	✓
Morocco	✓	✓
Namibia	✓	✓
Niger	✓	–
Nigeria	✓	✓
Oman	✓	✓
Philippines	✓	✓
Poland	–	✓
Portugal	–	✓
Qatar	✓	✓
Romania	–	✓
Republic of Korea	✓	✓
Russian Federation	✓	✓
Rwanda	✓	✓
Saudi Arabia	✓	✓
Senegal	✓	✓
South Africa	✓	✓
Slovenia	–	✓
Sri Lanka	–	✓
Thailand	✓	✓
Tunisia	✓	✓
Turkey	✓	✓
Uganda	✓	✓
United Arab Emirates	✓	✓
United Republic of Tanzania	✓	✓
Uruguay	–	✓
Viet Nam	–	✓
Zambia	✓	✓
Zimbabwe	✓	✓
State of Palestine	✓	–
Total	**41**	**51**

Chile	✓	✓
China	✓	✓
Colombia	✓	✓
Czechia	–	✓
Dominican Republic	✓	–
Egypt	–	✓
El Salvador	✓	✓
Estonia	–	✓
Ethiopia	✓	✓
Gabon	✓	✓
Georgia	✓	✓
Ghana	✓	✓
Grenada	✓	✓
Honduras	✓	–
Hungary	–	✓
India	✓	–
Indonesia	✓	✓
Iraq	✓	✓
Jamaica	✓	✓
Jordan	✓	✓
Kazakhstan	✓	✓
Kenya	✓	✓
Kuwait	–	✓
Latvia	–	✓
Malaysia	–	✓
Mexico	✓	✓
Mongolia	✓	–
Mozambique	✓	✓
Nigeria	✓	✓
Paraguay	✓	–
Peru	–	✓
Poland	✓	✓
Qatar	–	✓
Republic of Korea	✓	✓
Russian Federation	✓	✓
Rwanda	✓	–
Saudi Arabia	–	✓
Seychelles	✓	–
South Africa	✓	✓
Sri Lanka	✓	✓
Suriname	–	✓
Thailand	–	✓
Trinidad and Tobago	✓	✓
Tunisia	✓	✓
Turkey	✓	✓

Ukraine	✓	✓
Uganda	✓	✓
United Arab Emirates	–	✓
United Republic of Tanzania	✓	–
Uruguay	✓	✓
Venezuela (Bolivarian Republic of)	✓	✓
Zambia	✓	–
Total	**47**	**52**

Note: The identification of countries as “emerging markets” follows the established conventions of financial markets.

VI. Investment returns

A. Performance

36. The Fund’s market value of assets had increased to $64.14 billion as at 31 December 2017, from $52.11 billion as at 1 January 2015, an increase of $12.02 billion, or approximately 23.1 per cent (arithmetic calculation) during the biennium.

37. For the biennium, the Fund had an annualized real return of 9.4 per cent. The real return was 3.1 per cent for 2016 and 16.2 per cent for 2017. The Fund met or exceeded its long-term real rate of return objective of 3.5 per cent over the 1-, 3-, 5-, 15-, 20-, 25- and 50-year periods ended 31 December 2017. For the 50-year period, the Fund exceeded its 3.5 per cent objective by 80 basis points, with a real rate of return of 4.3 per cent.

38. For the biennium, the Fund had an annualized nominal return of 11.7 per cent, underperforming the policy benchmark return of 12.4 per cent by 68 basis points, attributed to stock selection in global equities, short duration position in fixed income and challenges in the negative yield environment in the first half of 2016. For 2016, the Fund’s nominal return was 5.2 per cent, underperforming the policy benchmark return of 6.9 per cent by 171 basis points. For 2017, the Fund’s nominal return was 18.6 per cent, outperforming the policy benchmark return of 18.1 per cent by 47 basis points. The relative outperformance of 47 basis points was primarily the result of asset allocation decisions to overweight public equity and to underweight long-term fixed income. The Fund maintained a slight overweight in public equity throughout the year in combination with a disciplined rebalancing process. The Fund also maintained an underweight position in long-term fixed income throughout the year. Over the past 15 years, the Fund achieved an annualized nominal return of 8.1 per cent, outperforming the 7.9 per cent return of the policy benchmark by 16 basis points.

39. United States equities returned 10.9 per cent in 2016 and 22.0 per cent in 2017. Non-United States equities returned 3.6 per cent in 2016 and 28.1 per cent in 2017. Total equities returned 7.5 per cent in 2016 and 24.8 per cent in 2017. United States bonds showed returns of -0.4 per cent in 2016 and 3.5 per cent in 2017. Non-United States bonds returned -2.4 per cent in 2016 and 11.8 per cent in 2017. Real estate performance, based on time-weighted return calculations, was 9.2 per cent in 2016 and 10.8 per cent in 2017. Short-term investments returned -0.4 per cent in 2016 and 5.1 per cent in 2017.

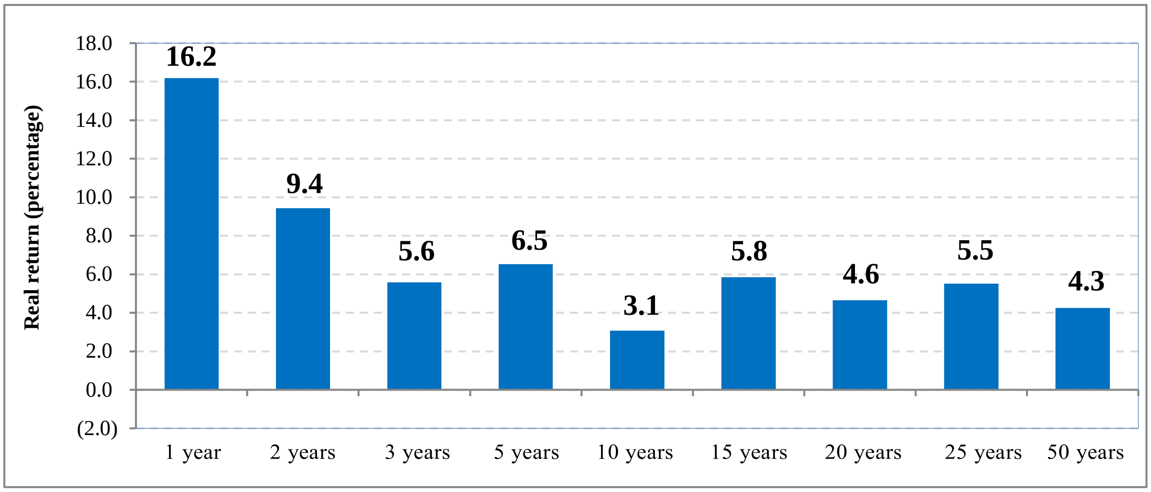
40. The performance numbers are calculated by a third-party master record keeper using the industry-accepted Global Investment Performance Standards method. The

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.

41. From a geographic diversity perspective, the Fund is one of the most globally diversified pension funds. At the end of the period under review, the Fund had 44.2 per cent of its assets denominated in currencies other than the United States dollar. Investment performance is reported in dollar terms. For 2017, the Fund had an absolute positive currency contribution of 4.3 per cent. In 2017 the dollar weakened against major currencies, thereby contributing positively to the total Fund return. For 2016, the Fund had an absolute negative currency contribution of 1.3 per cent, as the dollar strengthened against major currencies. For the biennium, there was a positive currency effect that was caused by the weakness of the dollar against other major currencies. Currency tends to have a minimal impact on the Fund's performance in the long run.

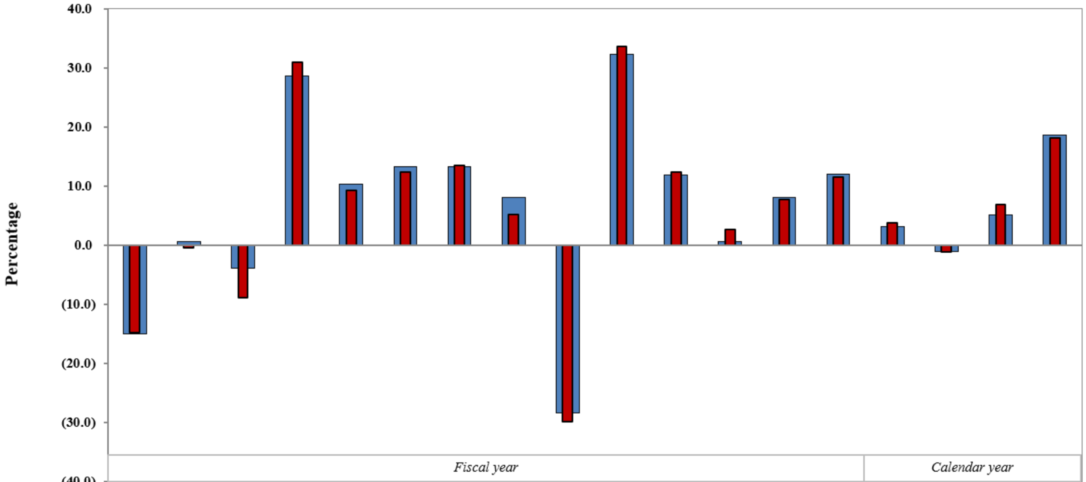
42. The Fund exceeded its 50-year long-term investment objective of a real return (adjusted for inflation according to the United States CPI) of 3.5 per cent by 80 basis points, with a real rate of return of 4.3 per cent for the 50-year period ended 31 December 2017. Figure I displays the real and nominal returns over the 50-year period, and a comparison of nominal performance to the policy benchmark is provided in figure II. Tables 5 and 6 show historic returns by asset class. All of the data in figures I and II and tables 5 and 6 were made available by the independent master record keeper. Historically, equity markets had strong positive returns from 1993 to 2000 but declined sharply in the following three consecutive years. From 2004 to 2008, the equity markets had positive returns. The markets experienced volatility from the third quarter of 2008 until the second quarter of 2012; since then, volatility has been below its historical average. For the past two years, 2016 and 2017, the Fund's returns were 5.2 per cent and 18.6 per cent, underperforming the policy benchmark by 1.7 per cent for 2016 and outperforming the policy benchmark by 0.5 per cent in 2017.

Figure I
Pension Fund real and nominal returns to 31 December 2017



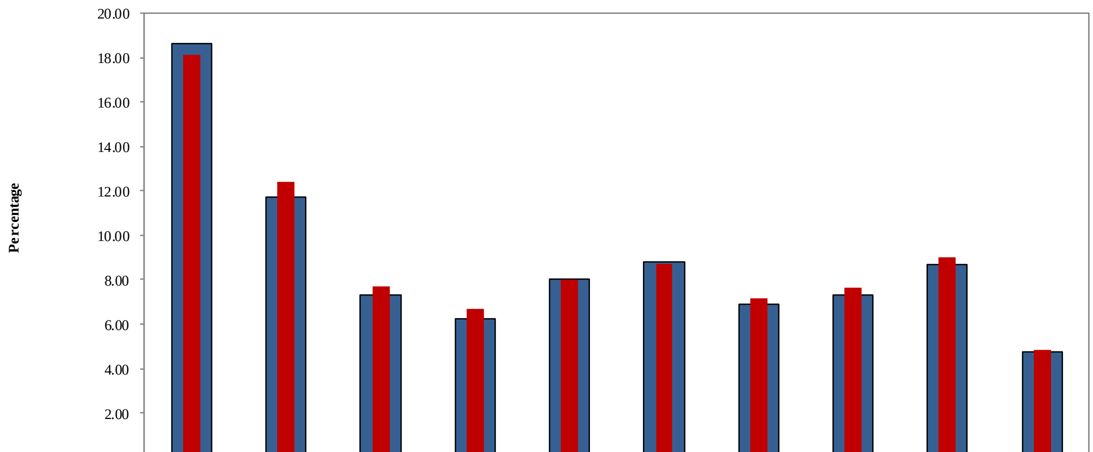
	1 year	*2 years*	*3 years*	*5 years*	*10 years*	*15 years*	*20 years*	*25 years*	*50 years*
United Nations nominal return (percentage)	18.6	11.7	7.3	8.0	4.7	8.1	6.9	7.9	8.5
United States CPI	2.1	2.1	1.6	1.4	1.6	2.1	2.1	2.2	4.1
United Nations real return (inflation adjusted, percentage)	16.2	9.4	5.6	6.5	3.1	5.8	4.6	5.5	4.3
United Nations real return minus 3.5 per cent	12.7	5.9	2.1	3.0	(0.4)	2.3	1.1	2.0	0.8

Figure II
Pension Fund long-term rates of return versus policy benchmark, fiscal year ended 31 March from 2001 to 2014 and calendar year from 2014 to 2017



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2014	2015	2016	2017
Pension Fund return (percentage)	-15.0	0.7	-3.8	28.7	10.4	13.3	13.4	8.1	-28.3	32.2	11.9	0.6	8.1	12.1	3.2	-1.0	5.2	18.6
United Nations policy benchmark return (percentage)	-14.8	-0.4	-8.9	30.9	9.4	12.3	13.6	5.2	-29.8	33.7	12.4	2.7	7.8	11.6	3.7	-1.1	6.9	18.1

Figure III
Pension Fund nominal return versus the benchmark for various periods to 31 December 2017



	1 year	2 year	3 year	4 year	5 year	6 year	7 year	8 year	9 year	10 year
Pension Fund rolling year return (percentage)	18.6	11.7	7.3	6.3	8.0	8.8	6.9	7.3	8.7	4.7
United Nations policy benchmark return (percentage)	18.1	12.4	7.7	6.7	8.0	8.7	7.2	7.6	9.0	4.8

Table 6
Total Fund annual rate of return

Year	Equities				Bonds				Real estate	Short term	Total Fund	Year
	United States	*Outside United States*	*Total[a]*	*MSCI World Index*	*United States*	*Outside United States*	*Total[b]*	*SBGWBI Bond Index*				
1961	18.8	37.8	19.4	–		–	8.0	–	–	–	12.7	1961
1962	12.37	0.87	11.65	–	–	–	3.91	–	–	–	6.61	1962
1963	(0.60)	(16.34)	(0.59)	–	–	–	5.49	–	–	–	4.07	1963
1964	18.18	7.48	17.45	–	–	–	2.12	–	–	–	8.24	1964
1965	10.89	8.30	10.44	–	–	–	4.41	–	–	–	6.98	1965
1966	4.53	3.22	4.31	–	–	–	(2.14)	–	–	–	0.66	1966
1967	11.76	(2.32)	8.98	–	–	–	3.97	–	–	–	7.91	1967
1968	2.86	28.30	7.46	–	–	–	(4.89)	–	–	–	1.60	1968
1969	13.35	20.07	14.64	–	–	–	2.66	–	–	–	9.09	1969
1970	(5.10)	(2.18)	(4.49)	–	–	–	1.41	–	–	–	(1.75)	1970
1971	13.94	3.31	11.46	9.28	–	–	14.10	–	–	8.73	13.53	1971
1972	14.13	34.30	18.33	16.92	–	–	9.41	–	11.58	7.15	16.98	1972
1973	5.85	20.77	9.49	13.47	–	–	7.40	–	4.78	5.92	8.55	1973
1974	(16.70)	(21.48)	(18.10)	(16.40)	–	–	1.92	–	10.18	10.70	(13.55)	1974
1975	(11.20)	11.60	(5.16)	(6.09)	6.20	14.63	6.55	–	(1.03)	12.35	0.18	1975
1976	16.37	10.76	14.58	15.59	11.22	1.91	10.02	–	5.16	7.70	13.16	1976
1977	(8.25)	(3.75)	(6.62)	(0.95)	10.40	15.20	11.06	–	3.70	5.20	(0.26)	1977
1978	(5.60)	20.31	4.16	6.11	5.62	24.39	8.72	–	8.25	7.67	6.12	1978
1979	22.36	21.67	22.07	21.27	4.70	12.50	6.63	8.04	16.86	8.56	15.07	1979
1980	10.89	(10.31)	1.08	(0.18)	(9.53)	(4.64)	(7.63)	(13.16)	17.42	11.75	(0.39)	1980
1981	43.19	39.60	41.45	34.80	14.99	9.45	12.51	20.38	14.71	15.76	26.60	1981
1982	(17.88)	(19.64)	(18.77)	(15.00)	11.08	0.40	6.20	(0.69)	17.51	17.95	(7.85)	1982
1983	40.91	23.60	33.55	31.60	32.53	14.54	24.89	20.54	7.07	12.76	27.05	1983
1984	5.08	32.46	15.66	17.30	5.46	12.42	8.67	8.20	13.33	13.07	13.01	1984
1985	20.75	(6.82)	9.54	7.20	17.86	(8.22)	4.53	5.50	13.47	3.62	8.09	1985
1986	34.95	58.48	43.44	56.02	54.30	50.33	51.21	48.70	10.75	6.95	41.52	1986
1987	21.63	43.88	30.01	43.22	9.14	32.63	22.59	17.42	12.67	11.97	24.69	1997
1998	(12.18)	2.15	(4.74)	5.81	3.26	20.24	12.65	11.42	9.19	7.67	3.10	1988
1989	13.20	10.00	11.30	13.56	2.10	(5.50)	(2.40)	0.36	8.20	10.40	5.90	1989
1990	21.54	13.21	16.57	(2.30)	10.47	2.93	6.20	3.12	12.31	9.72	11.56	1990
1991	8.9	1.2	4.5	3.2	12.5	17.4	15.0	16.2	5.1	13.1	8.9	1991
1992	11.3	0.1	4.9	(0.5)	13.7	14.0	14.0	14.0	(4.1)	6.5	7.6	1992
1993	17.3	6.7	11.2	12.7	15.9	17.7	16.9	19.0	(6.6)	7.5	11.6	1993
1994	(2.7)	24.4	12.4	14.0	3.4	10.1	7.7	6. 8	0.5	3.0	9.7	1994
1995	11.1	6.5	8.1	9.8	2.9	18.6	12.9	12.1	0.0	5.0	8.7	1995
1996	30.2	15.1	20.5	20.6	8.0	3.3	5.1	5.3	10.4	4.1	14.6	1996
1997	18.9	7.2	11.6	9.8	6.2	2.5	3.6	1.2	8.6	4.4	8.9	1997
1998	45.4	15.4	27.3	32.4	10.6	4.3	7.0	5.4	18.9	7.0	20.4	1998
1999	18.4	9.7	13.9	13.0	4.8	9.0	6.5	10.0	4.8	9.9	11.3	1999

	Equities				Bonds							
Year	United States	Outside United States	Total[a]	MSCI World Index	United States	Outside United States	Total[b]	SBGWBI Bond Index	Real estate	Short term	Total Fund	Year
2000	17.5	39.9	28.5	21.6	3.1	(5.7)	(2.5)	(0.3)	11.7	3.0	18.0	2000
2001	(17.2)	(30.3)	(24.2)	(25.1)	13.0	(4.2)	2.0	(1.7)	11.3	4.2	(15.0)	2001
2002	2.8	(6.1)	(1.3)	(4.2)	4.9	2.1	3.1	0.5	8.4	3.5	0.7	2002
2003	(23.9)	(21.7)	(23.1)	(24.2)	15.9	34.9	28.4	25.2	8.5	11.1	-3.8	2003
2004	29.3	56.5	42.5	43.9	6.8	19.4	15.7	13.5	23.9	8.1	28.7	2004
2005	6.3	16.9	11.8	11.1	1.2	10.5	7.8	5.5	15.8	2.5	10.4	2005
2006	13.1	28.8	21.3	18.6	2.4	-4.4	-2.8	-2.0	30.5	2.9	13.3	2006
2006				20.3 ACWI[c]				-2.6 BCGA[d]			12.3 60/31[e]	2006
2007	9.4	20.6	15.7	16.4 ACWI[c]	7.1	9.4	8.4	8.1 BCGA[d]	24.0	5.5	13.4 60/31[e]	2007
2008	-0.6	5.9	3.4	-0.7 ACWI[c]	8.3	18.4	15.1	15.3 BCGA[d]	9.0	8.3	8.1 60/31[e]	2008
2009	-34.6	-45.1	-41.0	-42.7 ACWI[c]	-1.4	-12.6	-8.6	-4.9 BCGA[d]	-22.9	3.9	-28.3 60/31[e]	2009
2010	42.6	62.2	54.1	56.3 ACWI[c]	5.9	16.7	10.8	10.2 BCGA[d]	-17.4	-2.7	32.2	2010
2011	14.9	13.1	13.8	14.6 ACWI[c]	5.4	10.3	8.2	7.1 BCGA[d]	12.5	1.3	11.9	2011
2012	6.7	-7.3	-1.2	-0.2 ACWI[c]	6.9	3.1	4.6	5.3 BCGA[d]	10.8	1.2	0.6	2012
2013	12.6	9.1	10.8	11.2 ACWI[c]	3.5	2.7	2.9	1.3 BCGA[d]	7.4	1.3	8.1	2013
2014	12.2	(3.6)	4.5	4.7 ACWI[c]	4.2	(5.7)	(1.0)	0.6 BCGA[d]	11.6	(4.2)	3.2	2014
2015	1.7	(3.7)	(0.9)	(1.8) ACWI[c]	1.1	(8.3)	(-3.4)	(3.1) BCGA[d]	10.1	(5.2)	(1.0)	2015
2016	10.9	3.6	7.5	8.5 ACWI[c]	(0.4)	(2.4)	(-1.4)	2.1 BBGA[f]	9.2	(0.4)	5.2	2016
2017	22.0	28.1	24.8	24.6 ACWI[c]	3.5	11.8	7.5	7.4 BBGA[f]	10.8	5.1	18.6	2017

Note: Return percentages are based on market values from 31 March 1962 to 31 March 2014 and 31 December 2014 to 31 December 2017. Figures are rounded off to a single decimal place.

Abbreviations: ACWI, All Country World Index; BBCGA, Bloomberg Barclays Capital Global Aggregate; BCGA, Barclays Capital Global Aggregate; CWGBI, Citigroup World Government Bond Index; MSCI, Morgan Stanley Capital International.

[a] Equities total is total public equity, which includes all internally and externally managed equity portfolios.

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

[c] MSCI ACWI consists of 23 developed and 23 emerging markets.

[d] Effective 3 November 2008, the bond index name was changed from Lehman Brothers Global Aggregate to BCGA.

[e] 60/31 is a policy benchmark with an allocation of 60 per cent in equities, 31 per cent in bonds, 6 per cent in real estate and 3 per cent in cash and short-term investments.

[f] Effective 24 August 2016, the bond index name was changed from BCGA to BBCGA.

Table 7
Total Fund annual rates of return based on market value
(Percentages for selected periods ended 31 December)

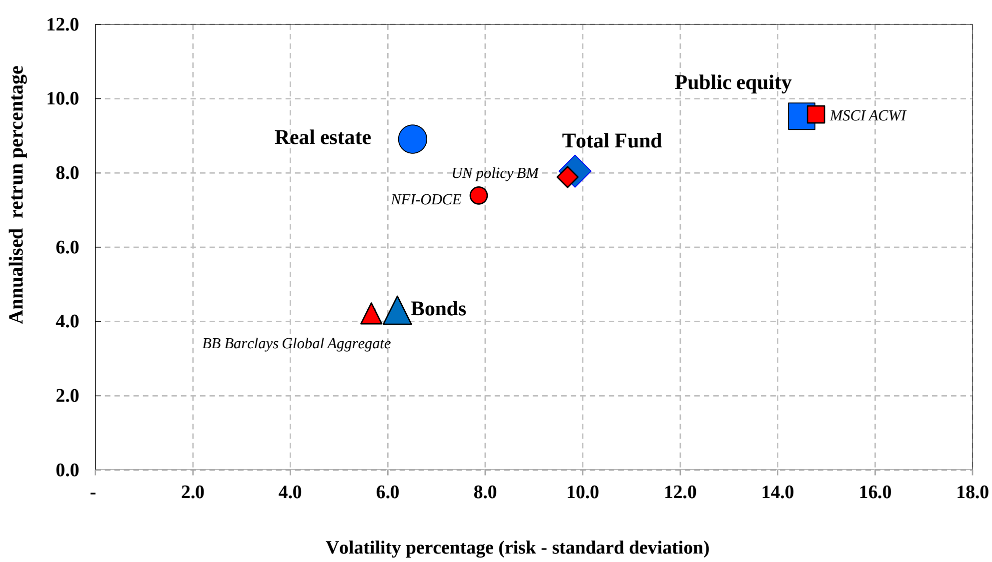
	2017	*2016*	*2015*	*2014*	*2013*	*2012*
Equities						
United States	22.0	10.9	1.7	12.2	33.1	15.8
Outside United States	28.1	3.6	-3.7	-3.6	17.1	17.7
Subtotal, equities	**24.8**	**7.5**	**-0.9**	**4.4**	**24.8**	**16.7**
Bonds						
United States dollar	3.5	-0.4	1.1	4.2	-1.9	3.9
Non-United States dollar	11.8	-2.4	-8.3	-5.7	-1.3	9.6
Subtotal, bonds	**7.5**	**-1.4**	**-3.4**	**-1**	**-1.6**	**7.2**
Real estate	10.8	9.2	10.1	12.6	11.3	9.7
Short-term investments	5.1	-0.4	-5.2	-4.2	-1.2	1.5
Total	**18.6**	**5.2**	**-1.0**	**3.2**	**15.5**	**12.7**
Real rate of return (inflation-adjusted return based on United States CPI)	**6.5**	**3.1**	**5.8**	**4.6**	**5.5**	**4.3**

Note: Best available data through the 50-year period from the independent master record keeper.

B. Fifteen-year risk/return profile

43. Over the past 15 years, the Fund's annualized return of 8.1 per cent was higher than the benchmark's return of 7.9 per cent. Its volatility of 9.8 per cent was almost in line with the benchmark's volatility of 9.7 per cent (see figure IV). The Fund had a well-diversified portfolio across asset classes and securities.

Figure IV
Fifteen-year risk/return profile



44. Within asset classes, the Fund's equity portfolio return of 9.5 per cent slightly underperformed the MSCI ACWI return of 9.6 per cent, and the Fund's equity portfolio had a better risk profile (14.5 per cent) compared with that of MSCI ACWI (14.8 per cent).The bond portfolio, with a 15-year return of 4.3 per cent, outperformed the BBGA Bond Index return of 4.2 per cent, but it had higher volatility (6.2 per cent) compared with the BBGA Bond Index (5.7 per cent).

VII. Sustainable investment strategy

45. The Pension Fund's investment policy statement addresses environmental, social and governance concerns by explicitly prohibiting investments in the tobacco and armaments sectors, whereas it does not mandate divestment in other areas.

46. The Fund acknowledges its responsibility to society as part of an international organization committed to social progress by being a founding signatory to the Principles for Responsible Investment and its association with the United Nations Global Compact and the United Nations Environment Programme (UNEP) Finance Initiative.

47. The Office of Investment Management's sustainable investment strategy is aligned with its fiduciary duty and responsibility, which includes material environmental, social and governance considerations that are integrated throughout the investment decision-making process.

48. The Office of Investment Management is of the view that portfolios that have integrated material environmental, social and governance metrics in their investment decision-making process have the potential to provide returns that are superior to those of conventional portfolios, while exhibiting lower risk over the long term. That view is supported by a large amount of academic research and literature.

49. By deploying an active voting and engagement policy, the Fund can more effectively impart positive sustainable impact and change consistent with its mission. The Fund believes in an effective and productive dialogue with company management in order to affect corporate behaviour and advocate better action and outcomes.

50. The Pension Fund adheres to sustainable investment proxy voting guidelines, in partnership with Institutional Shareholder Services.

51. The Office of Investment Management's sustainable investing approach seeks to promote sustainable business practices and stewardship that advocates improvement of the environment, fair labour practices, non-discrimination and the protection of human rights, and references such internationally recognized sustainability-related initiatives as the UNEP Finance Initiative, Principles for Responsible Investment, the United Nations Global Compact, the Global Reporting Initiative, the Carbon Principles and the conventions of the International Labour Organization.

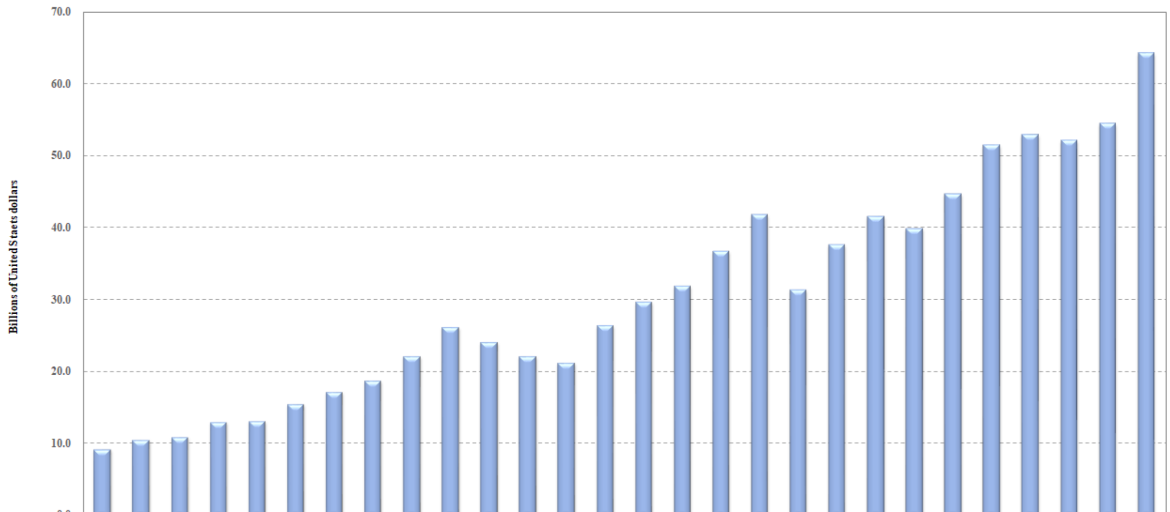
52. The Fund received a ranking of A+ from Principles for Responsible Investment and a ranking of AAA from the Asset Owners Disclosure Project, which in both cases reflected an improvement compared with the previous year. The Asset Owners Disclosure Project measures climate disclosure reporting, while Principles for Responsible Investment has a broader environmental, social and governance focus.

VIII. Conclusion

53. **The Office of Investment Management achieved strong total returns during the biennium, resulting in record-high market value of its assets, as shown in figure V. The Fund's market value of assets increased by approximately**

$12.02 billion, or approximately 23 per cent, from 1 January 2016 to 31 December 2017. The performance of the Office of Investment Management vis-à-vis the policy benchmark improved in 2017 relative to 2016, as the Fund adhered closely to its strategic asset allocation targets, as well as carrying out a disciplined rebalancing process.

Figure V
Pension Fund, market value of assets, 1990–2017



	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Pension Fund (billions of United States dollars)	9.11	10.42	10.81	12.88	12.99	15.34	17.07	18.71	22.04	26.04	23.94	21.99	21.19	26.29

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Pension Fund (billions of United States dollars)	29.65	31.82	36.659	41.712	31.289	37.534	41.444	39.746	44.675	51.366	52.82	52.114	54.43	64.136

54. **The Office of Investment Management made good progress across the board and is taking steps to achieve its goal of becoming a best-in-class global long-term investment institution.**