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Sixty-fourth Session of the UN Joint Staff Pension Board
23 – 28 July 2017
Vienna

Dear Colleagues,

This is to provide you with an early summary of the outcome of the Sixty-fourth session of the UNJSP Board recently concluded in Vienna on 28 July at UNOV. The summary derives from FAFICS participation in the Board and the Board's sessional report. FAFICS was represented at the session by six retirees, Marco Breschi, Louis Dominique Ouedraogo, Warren Sach, Linda Saputelli, Gerhard Schramek and Marashetty Seenappa, designated by the FAFICS Council. The Board had before it a 14 point agenda of which the key issues related to Investments, the proposed UNJSPF budget for 2018-2019, actuarial matters and the term of appointment of the CEO. Other matters related to election of Board officers, appointments to subsidiary bodies of the Board, administration, governance, audit, benefits and other miscellaneous items.

The Pension Board either made recommendations and provided observations/suggestions to the General Assembly, or took specific decisions depending upon the subject matter and its own authority under the UNJSPF regulations and rules. A formal report of the Board will be provided to the General Assembly in the fall when it will take up the Pension item in the Fifth Committee with the benefit of advice from the ACABQ and the Board of Auditors.

INVESTMENTS

The Board received a number of separate reports relating to 2016 investment performance, membership of the Investment Committee, Information Communications Technology (ITC) strategy, risk management and benchmarking. It also received under another agenda item a report of the Assets and Liabilities Monitoring Committee (ALMC) on the independent in- depth review of the Fund's investment main practices, investment management, risk management and investment performance.

A. <u>Investment Performance</u>

FAFICS drew the Board's attention to the Fund's underperformance of 171 basis points in 2016. The explanations given were partial and unconvincing since over $900 million in gains were forgone which affects the long term sustainability of the Fund. FAFICS also considered that the strategy and risk

functions were core functions of the Representative of the Secretary-General (RSG) and Investment Management Division (IMD) and should be outsourced only exceptionally. The RSG acknowledged the 2016 underperformance, but attributed the results to stock selection in public equities, short duration in fixed income and a negative yield in the cash and short term market. She indicated that in 2017 the Fund achieved a record high. The figures, however, were not compared to the policy benchmark returns, so it was unclear as to whether investment performance had improved or not. Given the limited role of the Board regarding investments the Board took no decision on investment performance.

B. Investment Committee membership

The scheduled document on this issue, JSPB/64/R.10, was not issued. The RSG noted that one position was currently vacant, but made no proposal to fill the slot as consultations were ongoing and had not been finalized. The Chair of the Board, as well as representatives of several groups, stated it was highly regrettable that nominations were not available in time for the Board to play its role. The Board noted that the nomination process would be completed prior to the ACABQ meeting in September 2017 when the matter could be submitted to the ACABQ for consideration. It was unclear to the FAFICS representatives how the Board could fulfill its role in this matter if this procedure were to be followed.

C. ICT strategy for investments

IMD presented a document about updating the ICT strategy. The Board was informed that a specialized consulting firm had just been hired in June 2017 to develop a Target Operating Model (TOM) which would be finalized by the end of September 2017. This would help IMD complete an ICT strategy roadmap and timeline, although there was not yet any forecast available for resource requirements under the next two budget cycles. The FAFICS representative indicated disappointment with the lack of progress since the last Board meeting. He pointed out this situation complicated the budget process as there was no clear basis for estimating 2018-2019 ICT resource needs. The Board took note of the presentation made on IMD ICT matters.

D. Risk management progress report.

The Risk Officer gave an update on progress achieved. This was appreciated as there had been no risk report provided in 2016, presumably as the senior risk post had remained unfilled for an extended period of time. The FAFICS representative noted that the Independent Review Report prepared by Deloitte Advisory highlighted the need for a more rigorous personal trading policy, similar to that of peer funds. The Director of IMD agreed to this recommendation and the RSG also indicated her support. The Chair of the Board, as well as the Chair of the Budget Working Group, and representative of the Governing Bodies, asked how progress would be monitored in implementing the recommendations of the Deloitte report. The Board took note of the information on progress provided regarding risk management and compliance.

E. Benchmarking

A study to benchmark the UNJSPF vis-à-vis some 18 peer funds was undertaken by CEM International Inc. at the request of IMD. Results were presented on the basis of 2015 data which showed that UNJSPF investment costs were below the peer median. Appreciation for the report was expressed and the suggestion was made that it be repeated on a regular basis. The Board took note of the report which was presented for information.

F. Independent Review by Deloitte Advisory

The ALM Committee reported, under the Governance agenda item that the Committee had focused over the past year on asset allocation, investment performance, risk management and overseeing the Independent Review of Fund investments; i.e. on key matters affecting Fund solvency. The two FAFICS members of the ALM Committee participated fully in the Committee and one of them also served on the Independent Review Steering committee as well as on the Project committee. The ALMC was successful in ensuring that the Independent Review was professionally undertaken to a very high standard within a tight timetable by a very competent consulting company, Deloitte Advisory.
After a detailed review of the report on the Independent Review conducted by Deloitte Advisory the ALMC brought key observations to the attention of the Board as follows:

1. The Fund's long term investment strategy needs to be fully defined and documented;
2. IMD requires a functional risk management process;
3. The Fund's portfolio rebalancing policy and procedures need to be formalized;
4. The long-standing tradition of interaction with the Investment Committee and levels of participation need to be reinvigorated and;
5. The importance of promptly completing missing elements in the Investment Policy Statement was emphasized.

The Governing Board representatives fully supported the report, the Executive Heads endorsed the report and the Participants Group expressed appreciation and fully supported the report.
The Pension Board approved with appreciation the report of the ALM Committee and endorsed the independent review of investments of the UNJSPF. The Pension Board further requested that the executive summary of the Deloitte report be made available to the General Assembly and asked that the ALMC monitor implementation of the full set of recommendations. The ALM was mandated to report to the 65th session on implementation of the Independent Review recommendations.

PROPOSED BUDGET 2018 – 2019

The Board reviewed the CEO's and RSG's budget proposals on the basis of recommendations provided by the Board's Working Group on the budget. The Budget Working Group was chaired by a FAFICS representative. Revised estimates for the 2016-2017 biennium were also considered by the Board on the same basis; they were approved for recommendation to the General Assembly at $174,964,300, which amount is $5,091,100 below the existing appropriation.
Proposals for 2018-2019 made by the RSG and CEO amounted to a consolidated whole of $201,881,000 (after recosting). The Board accepted the advice of the Budget Working Group and agreed to recommend to the General Assembly a total provision of $195,230,800 (after recosting). The difference of some $6.7 million reflects the Working Group adjustments agreed by the Board. The overall level of budgets for the Fund's Secretariat was recognized as not having kept pace with the growth of beneficiaries and the related servicing workload. Accordingly, some immediate growth was necessary to ensure proper operations in the future.

Of 11 additional posts and two reclassifications sought by the CEO, the Board on the advice of the Budget Working Group agreed to 9 new posts and two reclassifications. The RSG, in light of the IMD high vacancy situation, had sought no new posts and restricted herself to non-post requests, mainly for contractual services. Adjustments were proposed by the Working Group to the IMD non-post requests to limit provisions for GTA and Contractual services for Strategy Adviser and Risk Adviser functions as

these were believed to be core functions of the RSG that ought not to be outsourced to contractors. The GTA requests of both the CEO and the RSG were recommended by the Working Group for trimming. In the case of the CEO request, the reduction was equivalent to 16 posts (from 63 to 47). The Working Group took special care to protect resources required for strengthening and improving Client Services.
The Chairman of the Budget Working Group, in introducing the Working Group proposals, noted that the Working Group proposals were unanimously agreed by the group. A balance had been sought between staffing flexibility and stability as regards GTA and established posts. Considerations included the requirements of IPAS, significant workload needs, due to downsizing of parts of the common system, and the need to balance between the use of internal and external resources. The Board agreed to the recommendations of the Budget Working Group as the basis for its submission of budget estimates to the Assembly.

ACTUARIAL MATTERS

The Committee of Actuaries recommended a limited number of changes in assumptions to be used for the upcoming valuation exercise as of 31 December 2017. These were the adoption of new mortality tables to reflect the improved longevity experience of the Fund, consequent required changes in lump sum commutation rates from 20.4% to 19.0 % and lower assumed inflation rates from 3.0% to 2.5%. These would have the effect of reflecting a need to increase contribution rates as a percentage of pensionable remuneration by 1.3%. The Board approved all the recommendations of the Committee of Actuaries regarding assumptions and methodology. This included the long term assumption of the 3.5% real rate of return on investments as agreed with the Investment Committee. It may be noted that as the current surplus (0.16%) as of 31 December 2015 in the actuarial valuation is less than the 1.3% change arising from changed assumptions then, other things being equal , the result would be to replace the current surplus by a small actuarial deficit.

AUDIT REPORTS

The Pension Board had the benefit of receiving reports from the Audit Committee of the Board as well as from the Board of Auditors (external audit) and from the Office of Internal Oversight Services (OIOS, internal audit). The Pension Board endorsed the Audit Committee's recommendations that:

1. Senior level management of the Fund Secretariat and IMD and OIOS take all necessary steps to improve their working relationships;
2. Fund Management and OIOS collaborate to propose changes to the Internal Audit Charter;
3. IMD finalize its comprehensive ICT strategy and;
4. The Fund continue to clarify, classify and communicate detailed statistics for the entire workflow universe.

The Board of Auditors issued an **unqualified audit opinion** for the financial period ended 31 December 2016. The Board of Auditors also reported that the Fund has achieved progress in the time taken to process benefits and had reduced the number of outstanding cases. However, the external auditors also identified scope for improvement in benefit processing, client services and certificates of entitlement processing. The Pension Board took note of the Board of Auditors reports and requested the Audit Committee to review and provide feedback on the audit report and recommendations at its next session in 2018. FAFICS was delighted by the unqualified Audit opinion issued by the Board of Auditors.

OIOS reported on its activities for the year ended 30 June 2017 during which time it issued six reports, including two critical and 41 important audit recommendations. OIOS reported that they had had no restrictions on the scope of internal audit during the audit period. In response to queries, OIOS explained it issued two critical recommendations to the Fund Secretariat as benefit processing levels and response to client enquiries fell below performance targets. OIOS recognized that the Fund Secretariat had achieved progress in the implementation of the recommendations with 58% of separation cases processed within 15 business days as of June 2017. The Fund Secretariat reported progress made with various pilot initiatives which had proven successful in addressing critical audit recommendations related to benefit processing and client services. Processing rates had very significantly improved to current levels of 80% of new actionable cases during the same month in which the separation documentation is received and 90% of response level for calls received in the pilot call center. The Pension Board took note of the report of OIOS for the year ended 30 June 2017. FAFICS was pleased to note the significant improvements in processing rates.

TERM OF APPOINTMENT OF THE CEO

The Board discussed in closed session the term of appointment of the CEO which expires 31 December 2017. Representatives of the three constituent groups expressed the desire to reach a consensus in the Board's consideration of the possible renewal of the CEO's contract. The Board agreed to a three year appointment extension subject to certain conditions to be specified in the final report to the General Assembly.

REPRESENTATION OF RETIREES IN STAFF PENSION COMMITTEES

FAFICS submitted a document proposing an amendment to the rules of procedure of the Pension Fund and to the Terms of Reference for the Special Pension Committees (SPCs). The proposal was made to eliminate the current anomaly whereby some SPCs exclude participation of retirees while others included them. The Board reviewed the amendment and approved the FAFICS proposal. Consequently, section C.1 of the regulations and rules will provide for the representation of retirees in all SPCs.

EMERGENCY FUND

The Board was presented with an interim status report which showed that in 2016 just $39,001 was paid out of the $ 225,000 appropriation. FAFICS expressed concern about the low utilization rate experienced in 2016, as well as the number of pending cases. FAFICS appealed for the Fund to expedite processing and offered the help of AFICS offices. The Fund took note and expressed its commitment to continue to work with AFICS associations. The Board took note of the interim report, including the amount paid out and the number of disbursements.

OTHER MATTERS

The Board took a number of additional actions regarding other matters. These included, inter alia, election of officers, appointments to subsidiary bodies of the UNJSPB, administration (including approval of the financial statements), benefits and some miscellaneous items which will be fully reported in the formal sessional report of the 64th session.