E

联合国粮食及农业组织
Food and Agriculture Organization of the United Nations
Organisation des Nations Unies pour l'alimentation et l'agriculture
Продовольственная и сельскохозяйственная организация Объединенных Наций
Organización de las Naciones Unidas para la Alimentación y la Agricultura
منظمة الأغذية والزراعة للأمم المتحدة

FINANCE COMMITTEE

Hundred and Eighty-fifth Session
Rome, 22 - 26 March 2021
Report on Investments 2020

Queries on the substantive content of this document may be addressed to:

Mr Aiman Hija
Director and Treasurer
Finance Division
Tel: +3906 5705 4676

EXECUTIVE SUMMARY

- Short-term Investments: This USD 1 797 million portfolio represents mainly unspent Trust Fund balances held pending disbursements on project implementation. Funds are diversified as to type and holdings and are invested with specialized asset managers and in deposits with the Bank for International Settlements (BIS). In 2020, given FAO's prudent, low risk investment style and the declining interest rate environment in the United States, the total return was 0.87 percent, versus the benchmark of 0.45 percent, representing an excess return of 42 basis points.

- Long-term Investments: This USD 641 million portfolio represents the accumulated assets set aside over a period of decades to fund the Organization's share of staff-related liabilities, which amounted to USD 1 499.5 million at 31 December 2020. Compared with the USD 1 481.6 million as per year-end 2019 this represents an increase of USD 17.9 million. The liabilities are comprised of the Staff Compensation Plan, Separation Payment Scheme, After Service Medical Coverage (ASMC) and the Termination of Service Payment Scheme. Invested assets are 50 percent in Equities and 50 percent in Fixed Income securities. In 2020, the long-term portfolio yielded 15.69 percent, while its benchmark return was 19.26 percent, giving an underperformance of 3.57 percent. The Euro gained 8.94 percent of its value versus the United States Dollar in 2020, this positively impacted the return of the Euro portfolio when converted into United States Dollar.

- Investment Governance: The strategic asset allocations for Short-term and Long-term investments are designed in close collaboration with the Organization's technical adviser, the World Bank. Asset and Liability (ALM) studies are conducted by specialized firms, reviewed by both the Advisory Committee on Investments (a committee composed of high-level experts from organizations such as the International Capital Markets Association (ICMA), the Bank for International Settlements (BIS), the Asian Development Bank (ADB), Cornell University and the International Centre for Pension Management (ICPM), and the internal Investment Committee with the final approval of the Director-General.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to take note of this information document.

Draft Advice

- **The Finance Committee took note of the Report on Investments 2020.**

1. This document is submitted to the Finance Committee for information, in accordance with Financial Regulation IX, which provides, in part, as follows: “The Director-General may invest monies not needed for immediate requirements seeking, wherever practicable, the advice of an Advisory Committee on Investments. At least once a year the Director-General shall include in the financial statements submitted to the Finance Committee a statement of the investments currently held.”

2. The Organization manages two general pools of investments: Short-term Investments, which represent mainly unspent Trust Fund balances held pending disbursements on project implementation, but can include amounts of Regular Programme Assessed Contributions received, but not yet spent during the calendar year; and Long-term Investments, which represent the accumulated assets set aside over a period of decades to fund the Organization’s share of staff-related liabilities.

Short-term Investments

3. Short-term investments consist largely of Trust Fund deposits held pending disbursement on project implementation and any cash representing the reserves of Regular Programme and other assets. The investments are managed by asset managers specialized in short-term investments: Wellington Management, the Northern Trust Company, HSBC, the World Bank and Wells Capital Management or invested in deposits with the Bank for International Settlements.

4. The market value (in United States Dollars) of the short-term portfolios at 31 December 2020 was USD 1 797 million versus USD 1 539 million at 31 December 2019.

5. The funds are invested with both external managers and deposits with the Bank for International Settlements using specific, low risk mandates to ensure preservation of capital.

6. Specific details on the mandates include:

a) Northern Trust: the Organization makes use of the Northern Trust Government Select Fund as a “liquidity fund”, investing end of day excess United States Dollars cash balances in a low risk mutual fund. The Government Select Fund consists mainly of securities issued or guaranteed as to principal and interest by the Government of the United States or by its agencies, instrumentalities or sponsored enterprises.

b) Bank for International Settlements: this is a portfolio consisting of a substantial level of staggered deposits. The Bank for International Settlements (BIS) offers the highest level of credit quality due to its structural integration with 50 central banks and monetary authorities.

c) Wellington Management: Investments are allowed in United States Dollars denominated government securities, government agencies, multilateral organization securities and high ranked bank and other financial institution obligations. The portfolio duration is three months.

d) World Bank: Investments are allowed in United States Dollars denominated government securities, government agencies, multilateral organization securities and high ranked bank and other financial institution obligations. The duration of this portfolio is six months.

e) Wells Capital Management: Investments are allowed in United States Dollars denominated government securities, government agencies, multilateral organization securities and high ranked bank and other financial institution obligations. The duration of this portfolio is twelve months

f) HSBC Euro Liquidity Fund: like the Northern Trust Government Select Fund, the HSBC Euro Liquidity fund serves a similar purpose, but for temporary, very short-term excess bank balances in Euro. The Organization has traditionally had limited cash balances in Euro due to delays in the receipt of contributions. Consequently, balances invested in Euro remained proportionally low throughout 2020.

7. The breakdown of invested short-term portfolio assets is as per the below table with a comparison with the previous year.

	At 31 December 2019	At 31 December 2020
NT Government Select Fund	49,222,409.00	16,825,365.10
Bank for International Settlements	644,220,862.00	750,848,674.89
Wellington AM	348,120,121.00	400,291,115.10
World Bank	306,104,606.00	324,502,527.32
Wells Capital Management	160,447,777.00	239,134,959.18
HSBC EUR Liquidity Fund*	31,313,781.99	65,376,180.86
Total	**1,539,429,556.99**	**1,796,978,822.45**

*This fund is denominated in EUR. The value for 2020 is EUR 53 281 587.40 converted at the 31/12/2019 UN Rate

8. The overall return on the Short-term Investment portfolio was 0.87 percent in 2020 versus the benchmark return of 0.45 percent, indicating an excess return of 42 basis points.

9. The level of interest rates in the United States strongly declined during the course of 2020, leading to a lower overall portfolio return over 2020 compared with the previous year. Individual manager returns are broken down by portfolio in the following table.

2020 Short Term Portfolio Return

Actively Managed		
Manager	**Wells Capital Management**	**2.13%**
Benchmark	*ICE Bofa Merrill Lynch U.S. Treasury Notes & Bonds, 0-2 Yr Index*	*1.87%*
Manager	**World Bank**	**1.24%**
Benchmark	*ICE Bofa Merrill Lynch U.S. Treasury Notes & Bonds, 0-1 Yr Index*	*1.12%*
Manager	**Wellington Management**	**0.72%**
Benchmark	*ICE Merrill Lynch 3 Month T-Bills*	*0.67%*
Deposits and Liquidity Funds		
Manager	**Northern Trust Liquidity Fund**	**0.38%**
Institution	**BIS**	**0.47%**
Benchmark	*1 Month T-Bills*	*0.45%*
TOTAL ST PORTFOLIO		
Portfolio Return (weighted average of all short term asset returns)		**0.87%**
Benchmark Return (1 Month T-Bills)		*0.45%*
Excess Return (portfolio return over benchmark)		**0.42%**

Risk Management of the Short-term Portfolio

10. The primary objectives of the Organization’s short-term investment policy in order of importance are: security of principal, liquidity, rate of return. The Organization has further defined “low-risk” as the maximum risk allowed where the probability of any negative return over twelve months is statistically negligible. While there are many risk metrics the Organization follows when managing its short-term investments, three key factors used to measure and manage investment risk are; duration, credit risk and diversification.

a) Duration is a measure of a bond’s sensitivity to changes in interest rate. The lower the duration, the lower the sensitivity and thus volatility in returns.
b) Credit risk is the measure of a bond’s likelihood to default on payment. The better the rating, the lower the likelihood of default. Using Standard and Poor’s ratings, AAA is the highest rating possible (and the rate of current United States Government debt), BBB is defined the

lowest rating where security can still be considered "investment grade". D is the lowest rating and stands for default. The average Short-term portfolio rating is AAA/AA.

c) Diversification: within the United States Dollar denominated high quality fixed income, the portfolio is diversified across issuers, duration and credit rating.

11. The investment guidelines each asset manager has been given direct investments towards high quality investments, mainly in government agencies, multilateral organization securities and high ranked bank obligations, as a consequence, the average portfolio credit rating is AAA/AA as shown below.

12. The average duration of the short term portfolio is 0.31, or 3.68 months. This is in line with the short-term policy.

	Weight in Portfolio	Duration	Weighted Average duration	Avergae Credit Rating (S&P Scale)
NT Government Select Fund	0.97%	-	0.000	Aaa-mf*
Bank for International Settlements	43.36%	0.08	0.036	N/A
Wellington AM	23.12%	0.24	0.055	AA/A
World Bank	18.74%	0.51	0.096	AAA/AA
Wells Capital Management	13.81%	0.87	0.120	AAA/AA
Total			**0.31**	**AAA/AA**

* Moody's Money Market fund classification

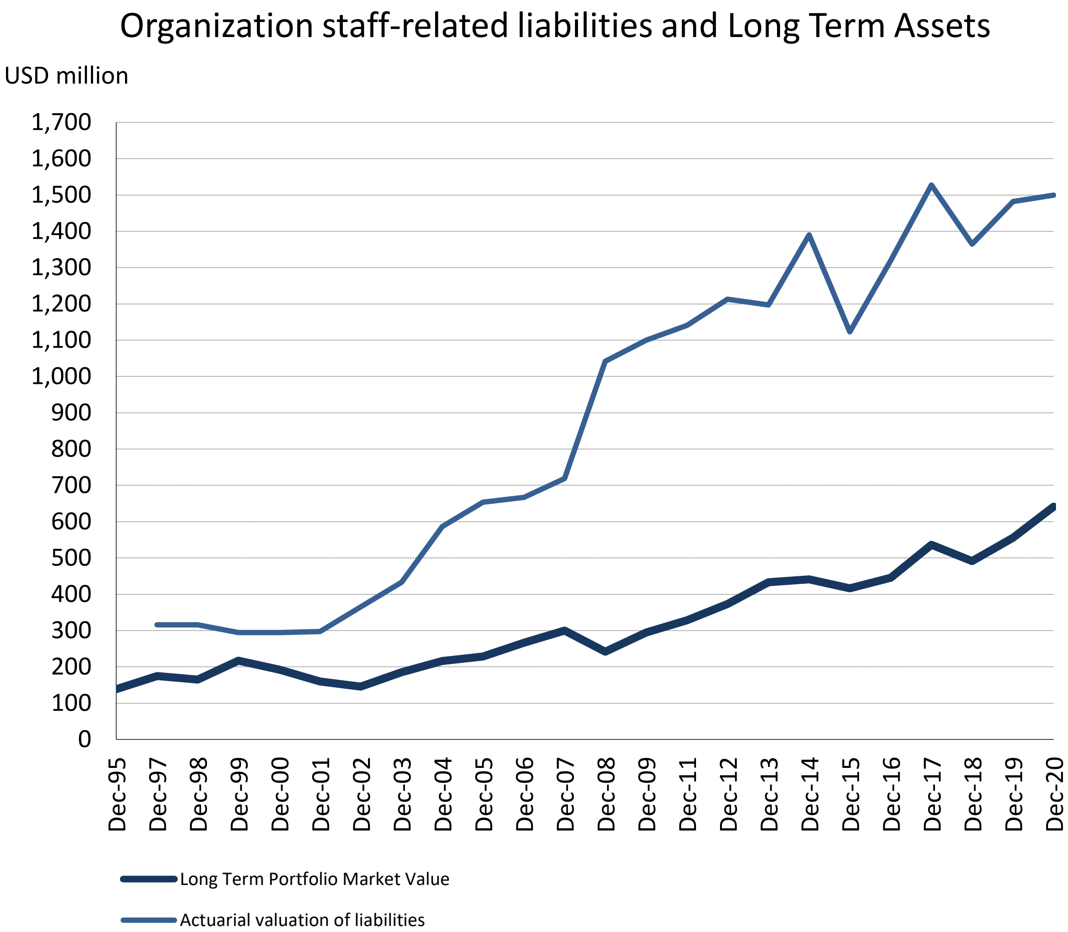
Long-term Investments

13. The long-term investment portfolio represents an accumulation in the value of securities and re-invested income over more than 30 years.

14. The principal objective of the portfolio is to fund the Organization's share of staff-related liabilities:

1) Staff Compensation Plan – Provides benefits in the event of injury, illnesses or death attributable to the performance of official duties.
2) Separation Payment Scheme – In conformity with the Flemming principle adopted in the UN system regarding local employment conditions, this scheme for General Service staff is similar to the separation scheme provided under Italian labour legislation.
3) After Service Medical Coverage (ASMC) – A medical insurance plan for eligible retired staff and their families where the cost of insurance is shared between the retiree and the Organization.
4) Termination of Service Payment Scheme – Consists of benefits payable to staff upon separation from service; Repatriation Grant, Repatriation Travel and Removal, Commutation of Accrued Leave, Termination Indemnity.

15. The chart below shows the evolution of the market value of the long-term investment portfolio since 1995 compared with the actuarial valuation of the staff-related liabilities (since 1997).



16. An actuarial valuation of these liabilities has been performed each biennium since 1996-97. The last valuation as of 31 December 2020, carried out by a specialized firm, placed the Organization’s share of total staff-related liabilities at USD 1 499.5 million, USD 17.9 million above the figure for 2019 of USD 1 481.6 million. Staff-related liabilities are presented to the Finance Committee in document FC 185/4 2020 Actuarial Valuation of Staff Related Liabilities.

17. Of the total USD 1 499.5 million of all staff-related liabilities, USD 1 353.4 million represented the liability of After Service Medical Coverage (ASMC). The Conference authorized biennial funding towards the past-service ASMC liability of USD 14.1 million in 2016-2017. The same amounts were authorized in 2004-2005, 2006-2007, 2008-2009, 2010-2011, 2012-2013 and 2014-2015.

18. No ASMC Funding was included in the biennial budget for 2018-2019 nor 2020-2021.

19. The market value of the asset allocation as at 31 December 2020 is shown below:

2020 Long Term Portfolio Asset Allocation

Manager	% Portfolio	Assets USD
Equity		
Developed Market Equity	40.98%	262,833,827.02
Emerging Market Equity	10.75%	68,943,849.55
Fixed Income		
LGT AM	19.34%	124,026,526.02
BNP AM	28.94%	185,602,395.43
TOTAL LT PORTFOLIO		**641,406,598.02**

values at 31/12/20

20. At the end of the first quarter 2020, the equity investments were transitioned from the legacy investment manager, Panagora, to transition accounts with the global custodian Northern Trust pending the reinvestment with target equity managers for which a procurement process is ongoing.

21. In 2018, an asset and liability study was conducted to reconfirm the most appropriate asset allocation given the objectives of the long-term assets and FAO's risk tolerance. The Investment Committee reviewed the results of this study with the assistance of FAO's technical adviser, the World Bank, and proposed a review of the current asset allocation to the Director-General. The new asset allocation was approved in late 2020, as shown below:

LONG TERM PORTFOLIO INVESTMENTS		
ASSET CLASS	**BENCHMARK**	**WEIGHT**
Developed Int'l Equity	MSCI World	37.50%
Emerging Mkt Equity	MSCI EM	12.50%
TOTAL GLOBAL EQUITIES		**50%**
Real Estate		10.00%
TOTAL RETURN SEEKING ASSETS		**60%**
Inflation Linked Bonds	Barclays World Govt. Inflation Linked	25.60%
Government Bonds	ICE Merrill Lynch EMU Direct Govt AAA Bond Index	6.40%
Investment Grade Credit	Barclays EU Credit Corp & Barclays US Credit Corp 100% Hedged to Euro	8.00%
TOTAL GLOBAL FIXED INCOME		**40%**
TOTAL RISK REDUCING ASSETS		**40%**

22. The new long-term policy introduces three main changes:

a. Within the 50 percent equity allocation, the weight of Emerging Markets (EM) holdings increases to 25 percent, from 20 percent, decreasing the Developed Markets (DM) holdings from 80 percent to 75 percent in line with the growing contribution of emerging economies to global GDP.

b. The overall long-term portfolio rebalancing threshold is reduced from +/-5 percent to +/-3 percent as this is seen as an essential tool of disciplined portfolio and risk management.

c. The introduction of real estate in the strategic asset allocation was suggested in the ALM portfolio optimization study, then reviewed with FAO's technical advisor, the World Bank. Both studies indicate FAO can position its portfolio on a higher efficient frontier by investing in 60 percent return-seeking assets (Equity and real estate) and 40 percent risk-reducing assets (fixed income).

23. FAO Treasury has successfully implemented the first requirement, rebalancing equity weights to 25 percent Emerging Markets (EM) holdings and 75 percent Developed Markets (DM) holdings as of mid-January.

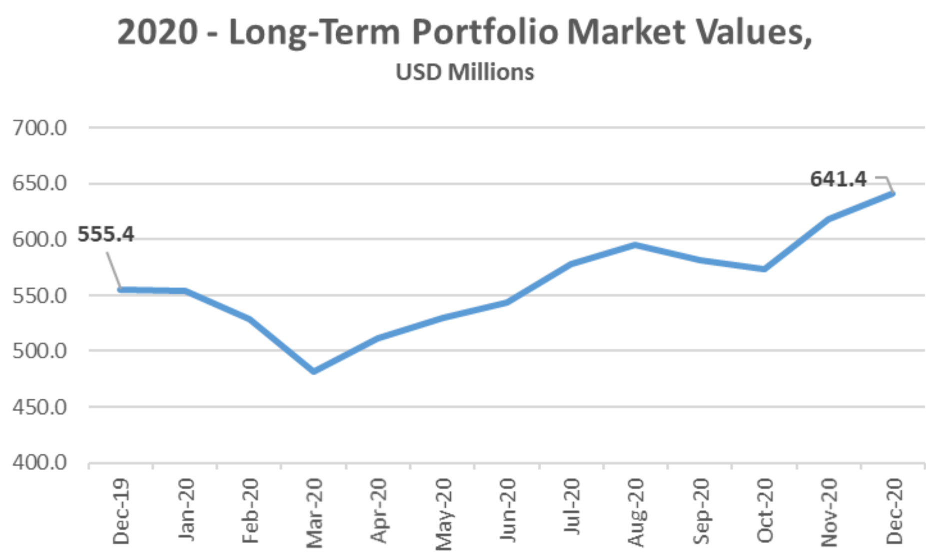
24. Once the equity investments with target managers have been finalized by early Q3 2021, the introduction of the real estate asset class will be sought in order to align to the new strategic asset allocation.

25. The measurement of performance is by comparison with the following benchmarks:

- For the equity portfolio: 75 percent The Morgan Stanley Capital International Inc All Country Index + 25 percent The Morgan Stanley Capital International Inc Emerging Markets Index;
- For the fixed income portfolio:
  - For the mandate awarded to LGT, A blend of 80 percent Barclays World Government Inflation Linked Bonds Index + 20 percent and ICE Merrill Lynch EMU Direct Government AAA Bonds Index;
  - For the mandate awarded to BNP, A blend of 55 percent Barclays World Government Inflation Linked Bonds Index + 15 percent and ICE Merrill Lynch EMU Direct Government AAA Bonds Index + 15 percent Barclays EU Credit Corp + 15 percent Barclays US Credit Corp.

26. These benchmarks fairly represent the geographical and sector allocation of the portfolio and have been reviewed by the Investment Committee and by the Organization's investment technical advisor, the World Bank.

27. During the year, the long-term investments increased from USD 555 million to USD 641 million, the Chart below illustrates the evolution of the long-term investment portfolio in 2020.

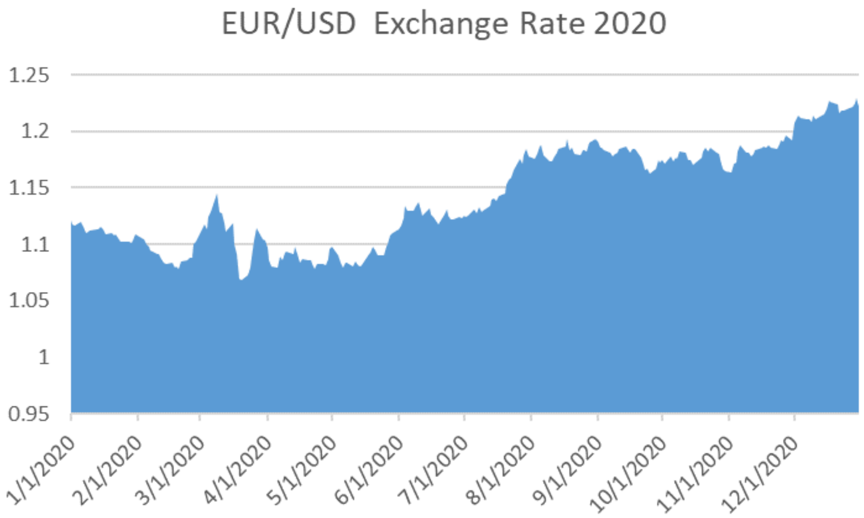


28. The overall performance of the long-term investments for 2020, represented in United States Dollars was 15.69 percent versus the benchmark return of 19.26 percent, representing an underperformance of 3.57 percent. Detailed performance of each individual portfolio against its appropriate benchmark is shown in the table below.

2020 Long Term Portfolio Return

	Equity, USD Denominated	USD RETURNS	EUR RETURNS
Manager	**Northern Trust Transition Accounts**	**14.65%**	
Benchmark	*80% MSCI World Index + 20% MSCI Emerging Markets Index*	*22.24%*	
	Fixed Income, EUR Denominated		
Manager	**LGT AM**	**17.27%**	**7.58%**
Benchmark	*80% Barclays World Gov't Inflation Link'd +20% ICE Merrill Lynch EMU Direct Gov't*	*16.95%*	*7.29%*
Manager	**BNP AM**	**16.55%**	**6.92%**
Benchmark	*55% Barclays World Gov't Inflation Link'd + 15% ICE Merrill Lynch EMU Direct Gov't AAA Bond Index + 15% Barclays EU Credit Corp + 15% Barclays US Credit Corp, hedged to EUR*	*16.34%*	*6.73%*
TOTAL LT PORTFOLIO USD RETURN		**15.69%**	
Portfolio Return (weighted average of equity and fixed income portfolios)		15.69%	
Benchmark Return (weighted average of equity and fixed income portfolio		19.26%	
Excess Return (portfolio return over benchmark)		-3.57%	
EUR/USD Annual Performance		*8.94%*	
Bloomberg closing values at 31/12/20			

29. The fixed income portfolios are denominated, managed and measured in Euro. This is because the underlying ASMC liability has a substantial Euro component and it is important to match, to the extent possible, assets and liabilities in long-term portfolios. The Euro gained value in 2020, closing the year at 1.2216, i.e. 8.94 percent higher compared with the start of the year. This impacts FAO's Euro denominated holdings in a positive way, increasing the portfolio performance when expressed in United States Dollars.

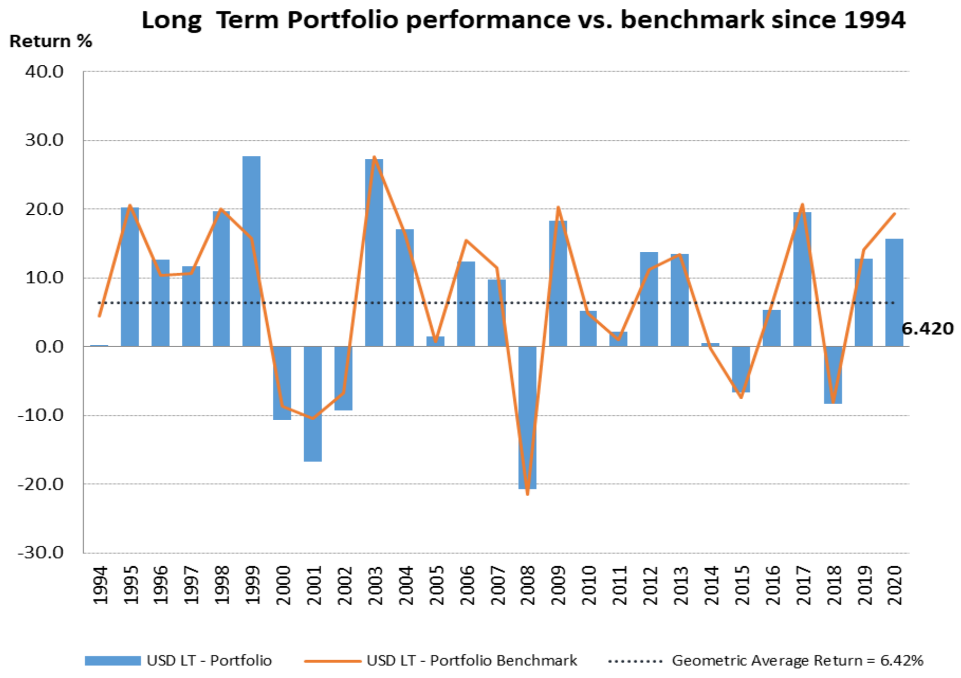


30. While annual performance versus the benchmark is an important measurement, such investments have a much longer time horizon to achieve their objectives. The Organization closely monitors investment performance over several years and several market cycles to filter out the short-term volatility and understand the longer-term trends of the chosen investment styles and objectives. In the market returns, shown below, it will be noted that the current mandates have returned 4.82 percent (based in United States Dollars) since inception.

2020 Long Term Portfolio Return

		Market Value USD, 000s	Weight in Portfolio	2020 USD RETURNS	2020 EUR RETURNS	3Y USD RETURNS	5Y USD RETURNS	Since Inception RETURNS
Manager	**Global Equity**	**331,777.68**	51.73%	**14.65%**		7.95%	10.66%	**9.77%**
	Benchmark			*22.24%*		*11.32%*	*13.38%*	*9.96%*
	Northern Trust Transition Accounts							
	Developed Market Equity	262,833.83	40.98%					53.22%
	Benchmark							53.60%
	Emerging Market Equity	68,943.85	10.75%					55.98%
	Benchmark							58.37%
Manager	**LGT AM**	**124,026.53**	19.34%	**17.27%**	7.58%	4.17%	6.04%	**2.45%**
	Benchmark			*16.95%*	*7.29%*	*4.11%*		
Manager	**BNP AM**	**185,602.40**	28.94%	**16.55%**	6.92%	4.30%	6.40%	**2.73%**
	Benchmark			*16.34%*	*6.73%*	*4.14%*		
TOTAL LT PORTFOLIO USD RETURN		**641,406.60**		**15.69%**		**6.16%**	**8.55%**	**4.82%**
Consolidated LT Benchmark				*19.26%*		*7.72%*	*9.86%*	*4.83%*

31. The table below shows the annual returns of all long-term invested assets (current and prior mandates) since 1994 compared with their benchmarks. As is evident, returns have closely mirrored their benchmarks during the past twenty-seven years. The average investment return, expressed as the geometrical mean, over this period is 6.42 percent.



Risk Management of the Long-term Portfolio

32. Like the short-term investments, the long-term investments have a rigorous risk management structure in place. To complement risk reporting provided by external managers, the Organization implemented a risk management service with its custodial bank, Northern Trust that provides independent monthly reporting on the risk factors affecting the portfolio. This detailed report allows CSF to deconstruct the portfolios to measure:

a. Sources of risk: asset allocation, security selection, over/underweight sectors/regions, duration, currency, etc.

b. Mitigations of risk: diversification benefits (sector, style, duration structure), correlation, or decorrelation between portfolios.

c. Scenario testing: the portfolios are stress tested to see how they would react under various real past scenarios to gage the potential Value at Risk (VAR), should similar market shocks happen today.

d. The Organization will continue to develop its risk management structure to ensure that funds are managed most closely aligned to its liabilities. Monthly reports to the Investment Committee will highlight changes in any risk factors. In addition, the Treasury Unit carries out quarterly calls to investment managers and annual compliance visits.

Investment Expenses

33. The costs associated with management of the short- and long-term investments are detailed below. The most significant fees are those associated with the external management of the portfolios. These fees are calculated as a percentage of assets under management, changing as the value of the underlying assets change. A regular review of fees to ensure alignment with market standards is carried out by Treasury.

34. The overall expense ratio for the management and oversight of the investments in 2020 was 0.11 percent, lower than the ratio in 2019 of 0.125 and 2018 of 0.142 percent. The ratio improved following an increase of USD 278 million in assets under management and the reduction in costs by over USD 17 000, owing mainly to the reduction in travel expenditure.

Investment Service Provided	2020 Expenditures in USD
Management, custodial and advisory fees	1,924,043.15
Treasury staffing (three professional posts)	608,016.00
Advisory Committee on Investments Meetings, Investor compliance and Training Costs	6,500.00
Bloomberg Terminals	68,670.59
Total Expenses	**2,607,229.74**
Total Assets at 31/12/2020	**2,373,009,240.00**
Expense Ratio 2020	**0.110%**

Investment Governance at FAO

35. In 2020, the terms of reference of the Investment Committee were reviewed to better define the selection process of financial service providers and strengthen governance by suggesting the inclusion of two additional internal members to the committee. The Investment Committee is now chaired by FAO's Deputy Director-General with oversight over the finance division and is composed of other six members: the Deputy Director-General with secondary oversight over the Finance Division, the Chief Economist, FAO's Legal Counsel, Director of Finance, Director of the Office of Strategic Planning and Resources Management and Director of the FAO Investment Centre. The treasurers of IFAD and WFP and the Office of the Inspector General also participate as observers.

36. As indicated in paras 21, 22 and 23, following an asset-liability study, and various consultations with FAO's technical adviser, the long-term strategic asset allocation was updated in late 2020 to better position investments in terms of risk and return profile and enhance risk management by reducing the tolerance range for long-term assets before mandatory rebalancing.

37. The Organization also seeks investment advice from the Advisory Committee on Investments in accordance with Financial Regulation 9.1. The ACI is an external committee composed of five high-level experts from organizations such as International Capital Markets Association (ICMA), the Bank for International Settlements (BIS), the Asian Development Bank (ADB), Cornell University and the International Centre for Pension Management (ICPM).

38. The management of assets in the equity and fixed-income markets is carried out by specialized external asset managers in accordance with FAO’s detailed written guidelines. These managers are chosen through open, international calls for tender with a final selection process carried out with the assistance of the World Bank.

39. The global custodial, Northern Trust, is mandated to provide daily compliance monitoring of managed accounts. The Treasury Unit carries out annual compliance reviews with all external asset managers, quarterly performance calls, and provides fortnightly reports to the Investment Committee on the status of investments.

40. Finally, a detailed report on FAO’s investments is provided annually to the Finance Committee. This report is available on the internet website of the Finance Committee.