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Продовольственная и
сельскохозяйственная организация
Объединенных Наций

Organización de las
Naciones Unidas para la
Alimentación y la Agricultura

منظمة
الغذية والزراعة
للأمم المتحدة

FINANCE COMMITTEE

Hundred and Sixty-sixth Session

Rome, 27 - 31 March 2017

Report on Investments 2016

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

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EXECUTIVE SUMMARY

- Long-Term Investments: This USD 445.6 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 1,319.2 million at 31 December 2016. Compared to the USD 1,124.7 million as per year-end 2015 this represents an increase of USD 194.5million. The liabilities are comprised of: Staff Compensation Plan, Separation Payment Scheme, After Service Medical Coverage(ASMC) and the Termination of Service Payment Scheme. Invested assets are 50% in Equities and 50% in Fixed Income securities. In 2016 the long term portfolio yielded 5.35% . The long term portfolio benchmark return was 6.14%, and the excess return for the long term portfolio was -0.74%. The EUR lost 3.18% of its value versus the USD in 2016.
- Short-Term Term Investments: This USD 1,172 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 BIS. FAO's prudent , low risk investment style and low interest rate environment in 2016 kept returns very low, with a total return of 0.63% for the year. However, this exceeded the benchmark return by 42 basis points.
- Investment Governance: The strategic asset allocations for Short Term and Long Term investments are designed in close collaboration with the Organization's technical advisor, 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 World Bank, the BIS, the Asian Development Bank and Cornell University), and the internal Investment Committee with the final approval of the Director General. Revised investment policies for the Short and Long term portfolios were adopted in April 2016 and are found in Annex 1.

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 2016.**

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.”

Long-Term Investments

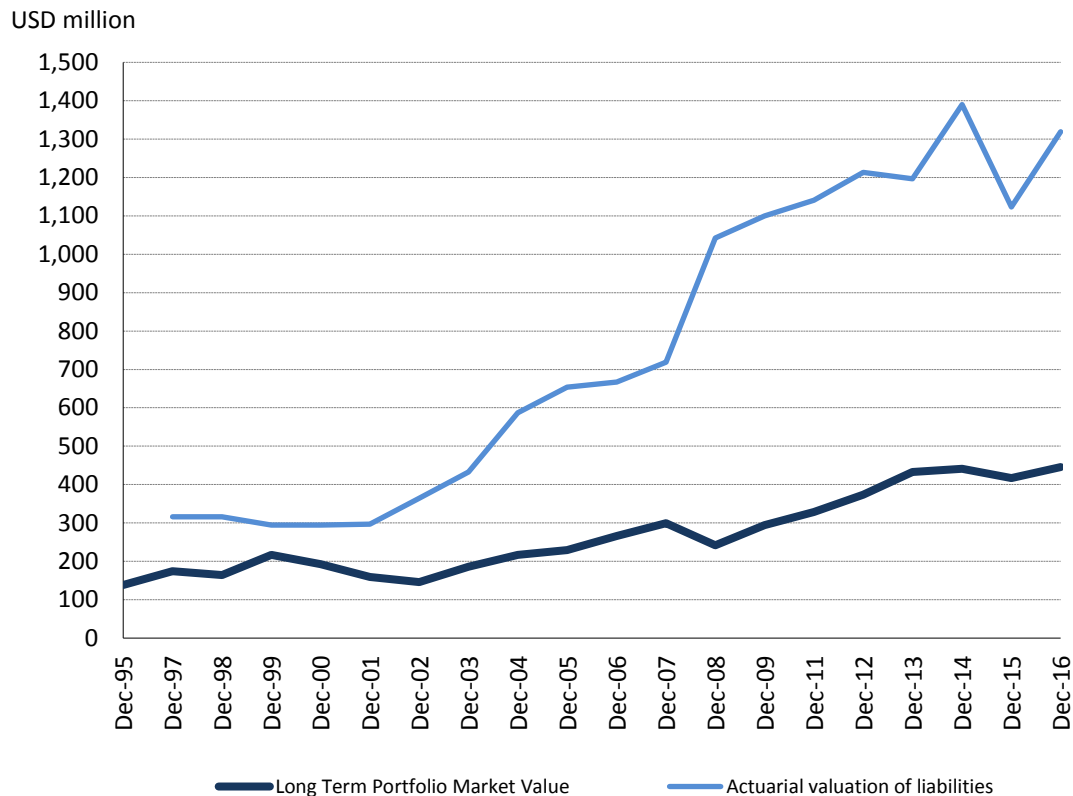
2. The long-term investment portfolio represents an accumulation in the value of securities and re-invested income over more than 30 years.

3. 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; and
- 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.

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

Organization staff-related liabilities and Long Term Assets



5. An actuarial valuation of these liabilities has been performed each biennium since 1996-97. The last valuation as of 31 December 2016, carried out by a specialized firm, placed the Organization's share of total staff-related liabilities at USD 1,319.2 million, USD 194.5 million above the figure for 2015 of USD 1,124.7 million. Staff-related liabilities are presented to the Finance Committee in document FC 166/5- 2016 Actuarial Valuation of Staff Related Liabilities.

6. The latest actuarial estimation of all staff-related liabilities included USD 1,192.3 million representing 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, 2014-2015 and 2016-17.

7. The ASMC Funding for 2016-17 was assessed in both EUR (67%) and USD (33%) in line with the currency mix of the liability. As agreed by the Finance Committee, assessed funds were transferred into the investment portfolio based on the percentage of total Member contributions actually received. Following this methodology, USD 2.703 million and EUR 4.592 million were transferred to the long term portfolio in 2016.

8. The asset allocation of the portfolio provides for a 50/50 ratio between equities and bonds. The actual allocation at market value at 31 December 2016 was as follows:

2016 Long Term Portfolio Asset Allocation

| Manager | % Portfolio | Assets USD |
|---------------------------|-------------|-----------------------|
| Equity | | |
| PanAgora AM | 52.81% | 235,322,811.74 |
| Fixed Income | | |
| LGT AM | 18.50% | 82,417,940.98 |
| FFTW AM | 28.69% | 127,841,027.95 |
| TOTAL LT PORTFOLIO | | 445,581,780.67 |

values at 31/12/16

GIPS compliant values

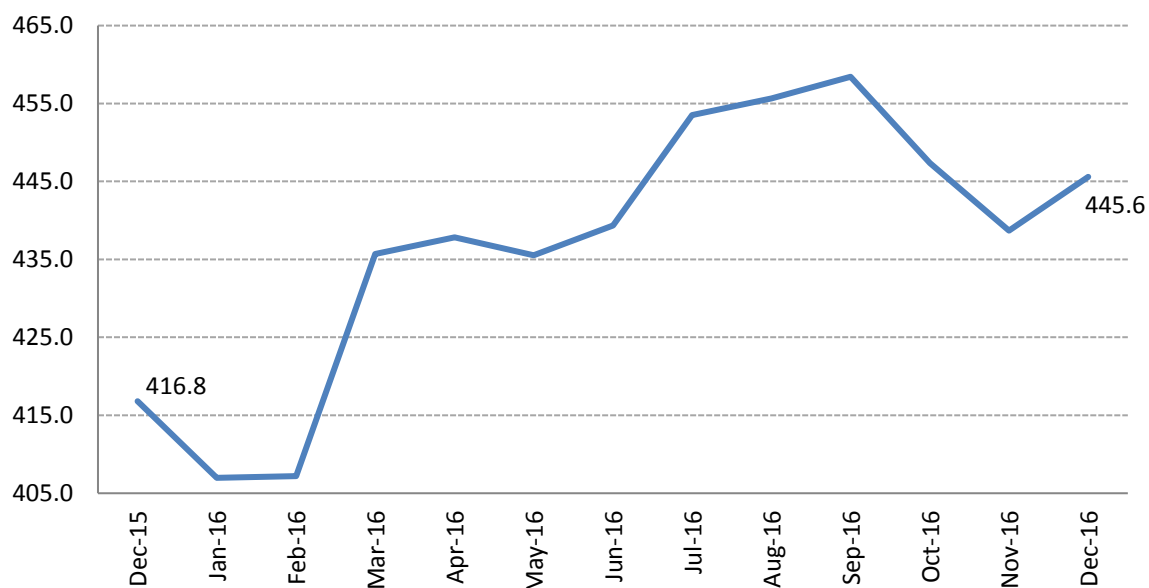
9. Rebalancing of the funds occurs at month end if the ratio is out of balance by more than 5%. When possible, active rebalancing by FAO Treasury using ASMC contributions is carried out.
10. The measurement of performance is by comparison to the following benchmarks:
- For the equity portfolio: 80% The Morgan Stanley Capital International Inc All Country Index + 20% The Morgan Stanley Capital International Inc Emerging Markets Index;
For the fixed income portfolio:
 - For the mandate awarded to LGT , A blend of 80% Barclays World Government Inflation Linked Bonds Index + 20 % and Merrill Lynch EMU Direct Government AAA Bonds Index;
 - For the mandate awarded to FFTW, A blend of 55% Barclays World Government Inflation Linked Bonds Index + 15 % and Merrill Lynch EMU Direct Government AAA Bonds Index + 15% Barclays EU Credit Corp + 15% Barclays US Credit Corp.

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.

11. The Chart below illustrates the evolution of the long-term investment portfolio in 2016.

2016 - Long Term Portfolio Market Values

USD Millions



12. Movements in the long-term portfolio during the year are summarized below. Non-USD values are expressed in USD using the exchange rate valid at 31 December 2016.

| CASH FLOW 2016 | Amount USD |
|---|-----------------------|
| Market Value 31/12/2015* | 415,959,133.69 |
| Net variance of unrealized gain/loss | 3,036,567.96 |
| Realized gain/ loss | 10,302,462.87 |
| Income dividends and interest | 8,995,423.02 |
| Management, custodial and advisory fees | - 695,664.07 |
| ASMC Funding | 7,741,937.41 |
| Accrued income change | - 3,240.54 |
| Market Value at 31/12/2016* | 445,336,620.34 |

*Ipsas compliant values, calculated on the asset BID prices.

a) It should be noted that equity investments are reported in USD, while fixed income investments are reported in EUR. Therefore, in order to obtain an overall return, fixed income returns were converted to USD. Consequently, the combined return reflects both the returns of the two funds and the currency effect of USD/EUR movements over the year. This combined return in 2016 for the long term funds expressed in USD was 5.35% versus 6.14% for the benchmark.

2016 Long Term Portfolio Return

| Equity USD | | |
|--|--|--------------|
| Manager | PanAgora AM | 7.32% |
| <i>Benchmark</i> | <i>80% MSCI World Index + 20% MSCI Emerging Markets Index</i> | <i>8.17%</i> |
| Fixed Income EUR | | |
| Manager | LGT AM | 5.59% |
| <i>Benchmark</i> | <i>80% Barclays World Gov't Inflation Link'd +20% Merrill Lynch EMU Direct Gov't AAA Bond Index</i> | <i>7.70%</i> |
| Manager | FTW AM | 6.72% |
| <i>Benchmark</i> | <i>55% Barclays World Gov't Inflation Link'd + 15% Merrill Lynch EMU Direct Gov't AAA Bond Index + 15% Barclays EU Credit Corp + 15% Barclays US Credit Corp</i> | <i>6.73%</i> |
| TOTAL LT PORTFOLIO | | 5.35% |
| Portfolio Return (weighted average of equity and fixed income portfolios) | | 5.35% |
| Benchmark Return (weighted average of equity and fixed income portfolio benchmarks) | | 6.14% |
| Excess Return (portfolio return over benchmark) | | -0.74% |

values at 31/12/16

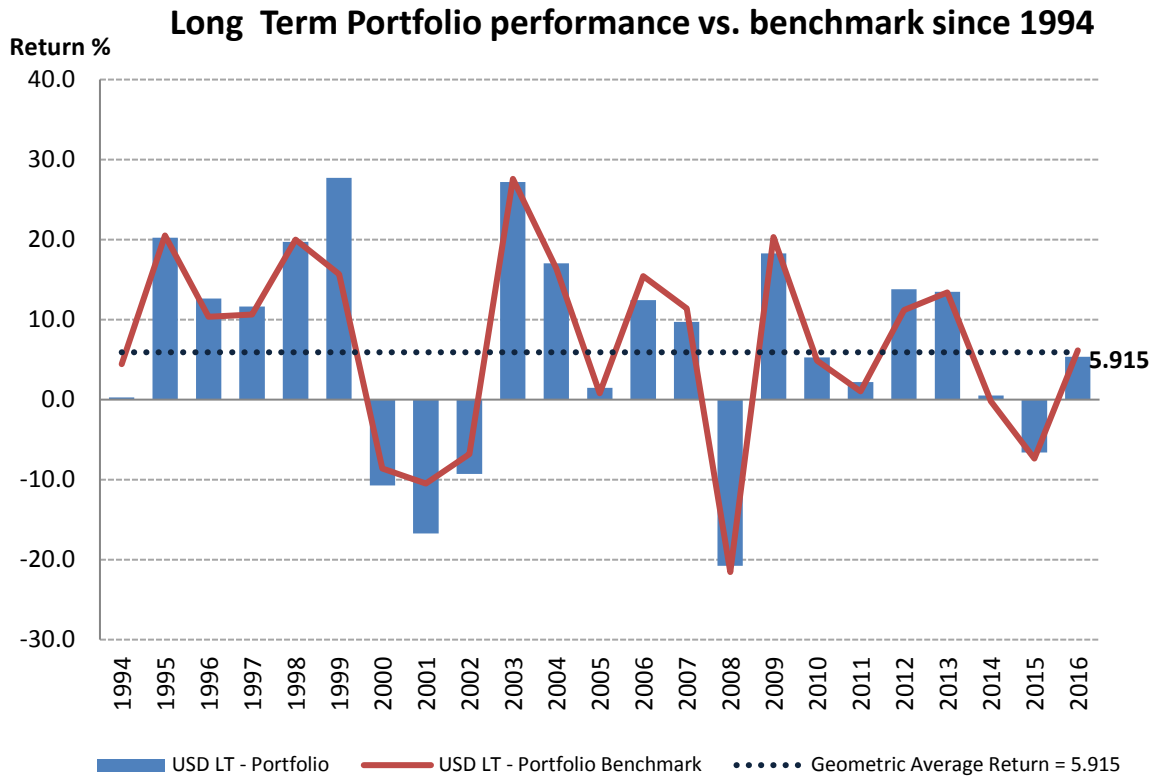
Notes:

Equity Returns based in USD

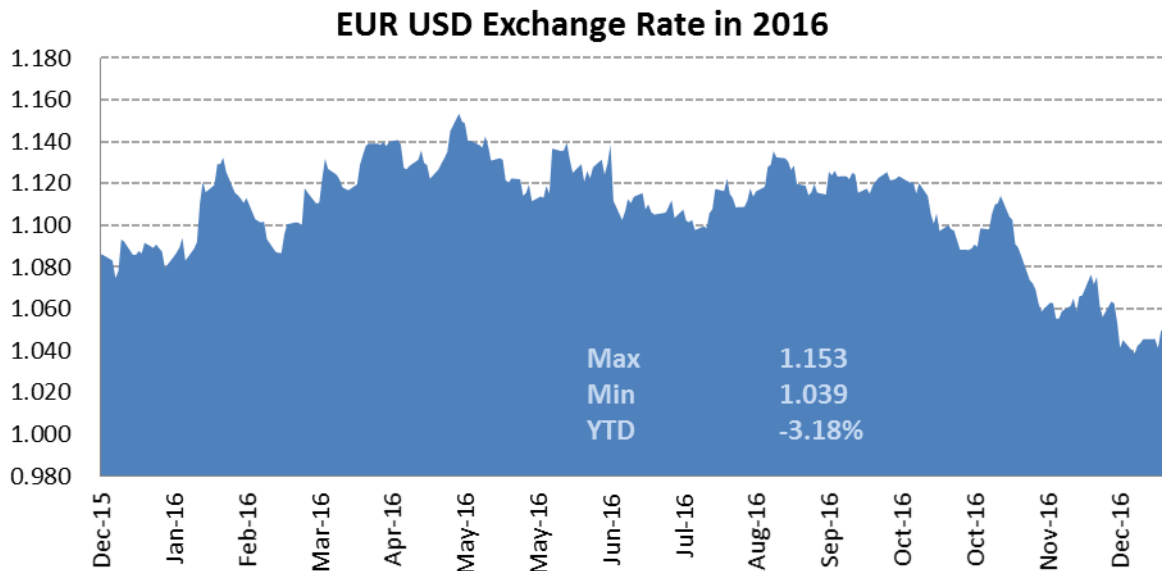
Fixed Income returns based in EUR

Combined returns based in USD

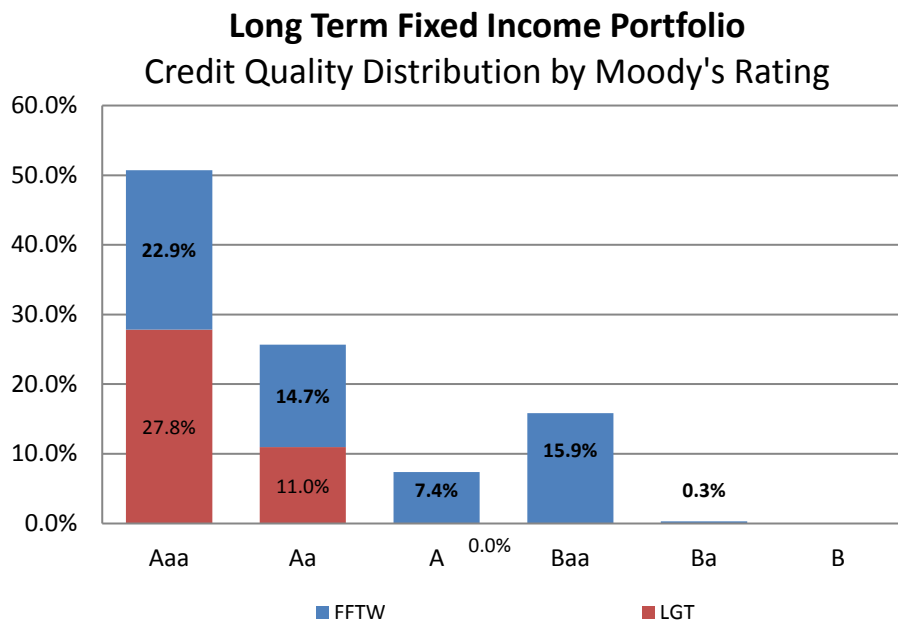
- b) Yearly performance figures of the long-term portfolio from 1994-2016 are shown below. The performance of the long term portfolio is shown by the bar chart and compared to the performance of the combined benchmark for long term investments. The dotted line in the chart is the geometrical average performance of the long term portfolio since 1994, i.e. 5.915%.



c) The chart below illustrates the movements in the USD/EUR rate over the course of 2016. Movements in the value of the EUR have a direct effect on USD measured returns. Year to date, the Euro lost more than 3% of its value to the US Dollar.

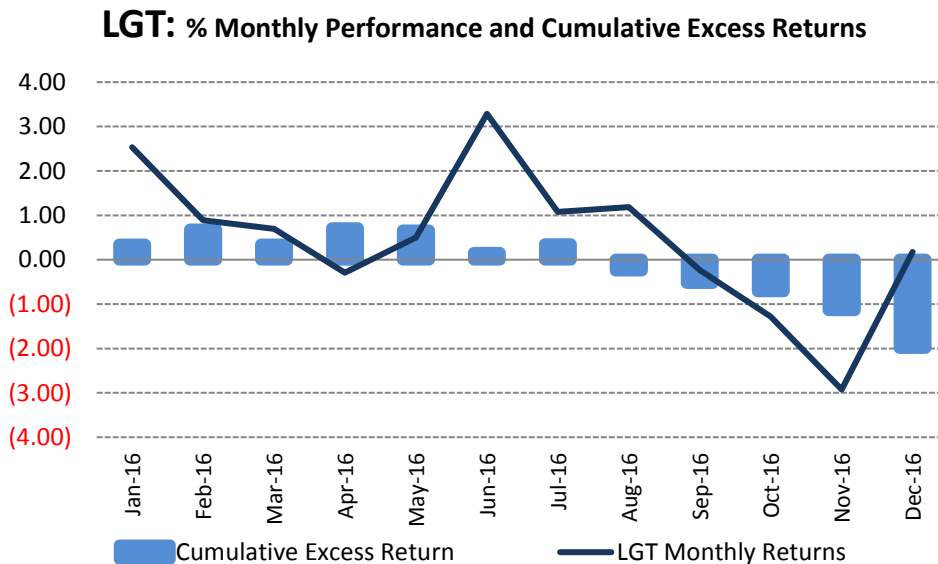


13. The chart below provides a breakdown of the assets in the long-term fixed income portfolio by credit quality. More than 76% of assets are in the Aaa-Aa space, confirming the low risk profile of investments.



Long -Term Portfolio 2016 Performance and Excess returns

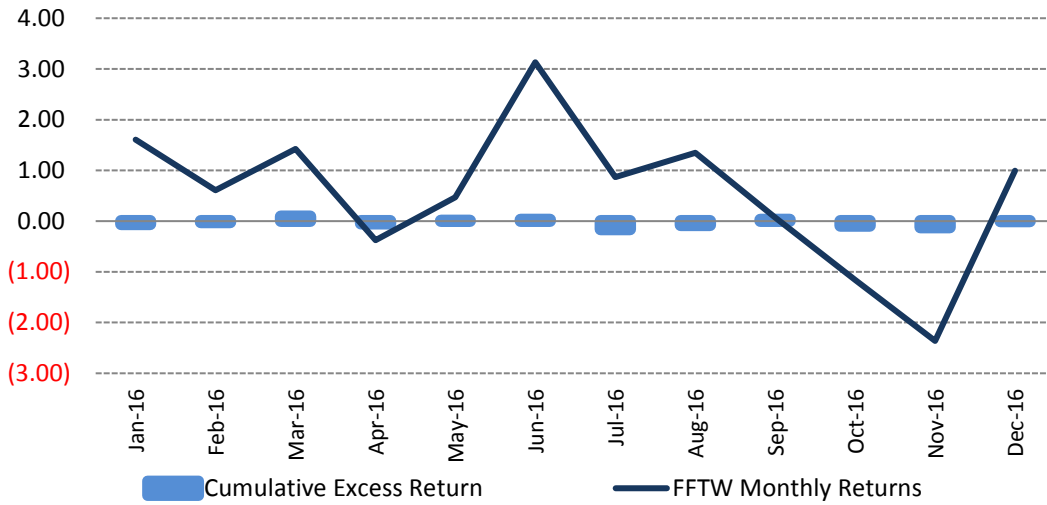
14. The review of Long Term Investments includes an analysis of performance and excess returns. Monthly returns and cumulative monthly excess returns are graphed over the past year, as shown below.



In 2016 the account managed by LGT experienced some volatility in both absolute and excess return. Over the year, LGT lagged the benchmark by 2.11%. The annual return was 5.59% vs. 7.70% for its benchmark.

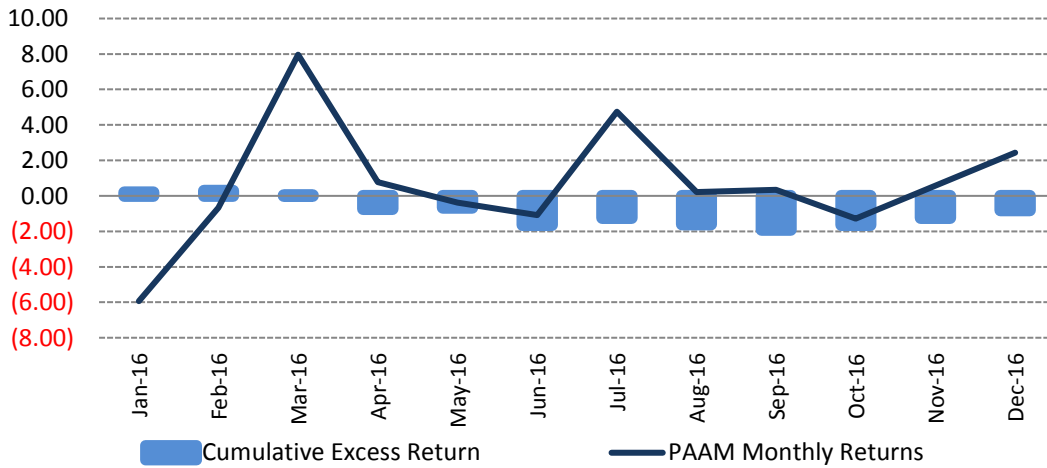
As shown below FFTW finished the year in line with its benchmark, excess return for 2016 was -0.01%. The annual return was 6.72% vs. 6.73% for its benchmark.

FFTW: % Monthly Performance and Cumulative Excess Returns



15. 2016 was a very volatile year for equity too, as can be seen in the graph below detailing the 2016 monthly performance and cumulative excess return generated by the account managed by PanAgora. PanAgora's excess return was negative for the first time since the inception of the mandate, -0.86% in 2016.

PanAgora: % Monthly Performance and Cumulative Excess Returns



Short-Term Investments

16. Short-term investments consist largely of Trust Fund deposits held pending disbursements on project implementation and any cash representing the reserves of Regular Programme and other assets. The investments are managed by asset managers specialised 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.

The market value (in USD) of the short-term portfolios is illustrated below:

| | At 31 December 2016 | At 31 December 2015 |
|------------------------------------|-------------------------|-------------------------|
| NT Government Select Fund | 21,941,848.02 | 2,453,108.00 |
| Bank for International Settlements | 476,905,635.32 | 341,241,788.83 |
| Wellington AM | 262,464,366.71 | 260,819,028.00 |
| World Bank | 252,380,639.31 | 250,805,978.00 |
| Wells Capital Management | 151,680,515.36 | 150,583,203.00 |
| HSBC EUR Liquidity Fund* | 6,504,540.47 | 24,879,137.09 |
| Total | 1,171,877,545.19 | 1,030,782,242.92 |

*EUR 6 218 340.69 converted at the 31/12/2016 UN Rate

17. During 2016, the Organization continued to keep a very low risk exposure of its short-term assets in light of the ongoing volatility and insecurity of financial markets and the low, but gradually rising interest rate environment in USD.

18. Specifically:

- 1) Northern Trust: Holdings in the Northern Trust Government Select Fund offer relative safety as they are substantially (and at least 80 %) securities issued or guaranteed as to principal and interest by the U.S government or by its agencies, instrumentalities or sponsored enterprises.
- 2) BIS: Continuation of high level deposits at the BIS in view of its outstanding credit quality arising from its structural integration with 50 central banks and monetary authorities.
- 3) Wellington Management: the Organization continued to impose very restrictive guidelines allowing only investments in very low risk instruments or instruments fully guaranteed by the US Government such as United States (US) T Bills, US government agencies and US government backed securities.
- 4) World Bank: This portfolio has restrictive guidelines and tight risk limits allowing only investments in government securities, government agencies, other official entities and multilateral organization securities and high ranked bank and other financial institution obligations
- 5) Wells Capital Management: This portfolio has restrictive guidelines and tight risk limits allowing only investments in government securities, government agencies, other official entities and multilateral organization securities and high ranked bank and other financial institution obligations

- 6) HSBC EUR Liquidity Fund: The Organization has traditionally had limited cash balances in EUR due to delays in the receipt of contributions. Consequently, balances invested in EUR remained proportionally low throughout 2016.

19. The end result of such risk mitigating measures implies that the majority of FAO's short-term investment portfolio is currently secured in very low risk instruments.

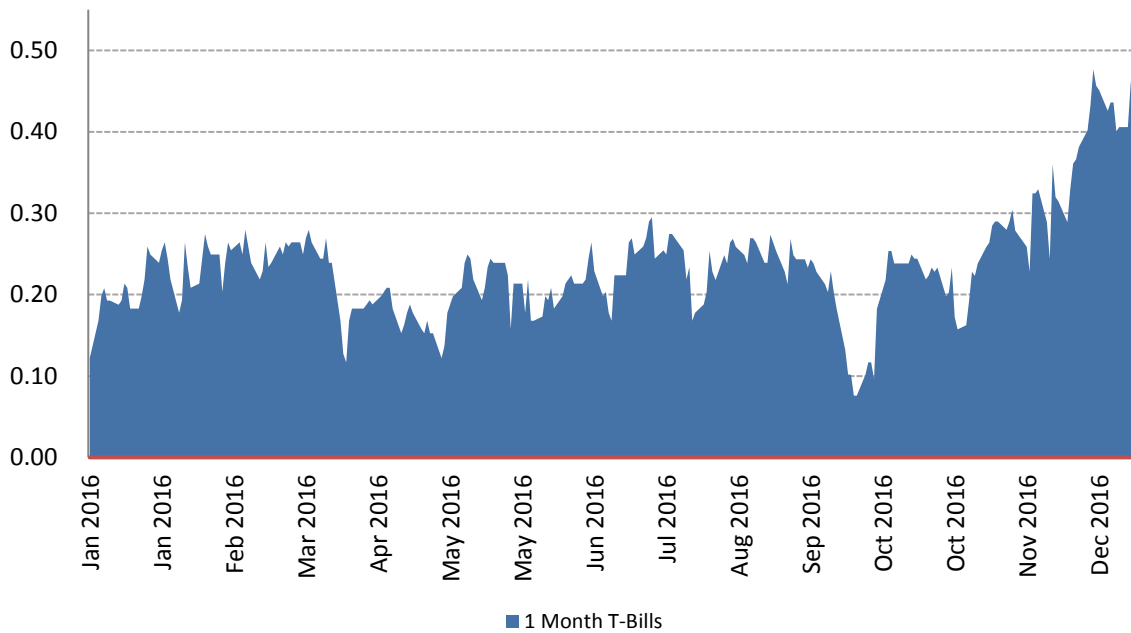
2016 Short Term Portfolio Return

| Actively Managed | | |
|--|---|---------------|
| Manager | Wells Capital Management | 0.83% |
| <i>Benchmark</i> | <i>Bofa Merrill Lynch U.S. Treasury Notes & Bonds, 0-2 Yr Index</i> | <i>0.71%</i> |
| Manager | World Bank | 0.77% |
| <i>Benchmark</i> | <i>Bofa Merrill Lynch U.S. Treasury Notes & Bonds, 0-1 Yr Index</i> | <i>0.61%</i> |
| Manager | Wellington Management | 0.71% |
| <i>Benchmark</i> | <i>Merrill Lynch 3 Month T-Bills</i> | <i>0.33%</i> |
| Deposits and Liquidity Funds | | |
| Manager | Northern Trust Liquidity Fund | 0.23% |
| <i>Benchmark</i> | <i>1 Month T-Bills</i> | <i>0.21%</i> |
| Institution | BIS | 0.44% |
| <i>Benchmark</i> | <i>1 Month T-Bills</i> | <i>0.21%</i> |
| TOTAL ST PORTFOLIO | | 0.630% |
| Portfolio Return (weighted average of all short term asset returns) | | 0.630% |
| Benchmark Return (1 Month T-Bills) | | <i>0.210%</i> |
| Excess Return (portfolio return over benchmark) | | 0.420% |

20. The performance of short-term portfolios during the course of 2016 was dominated by the low but gradually rising interest environment for very low risk USD investments. The overall performance was 0.63% for the year.

The annual returns for 1 Month T-BILLS in 2016 are graphed below for further comparison.

Returns on the 1 Month T-Bills over 2016

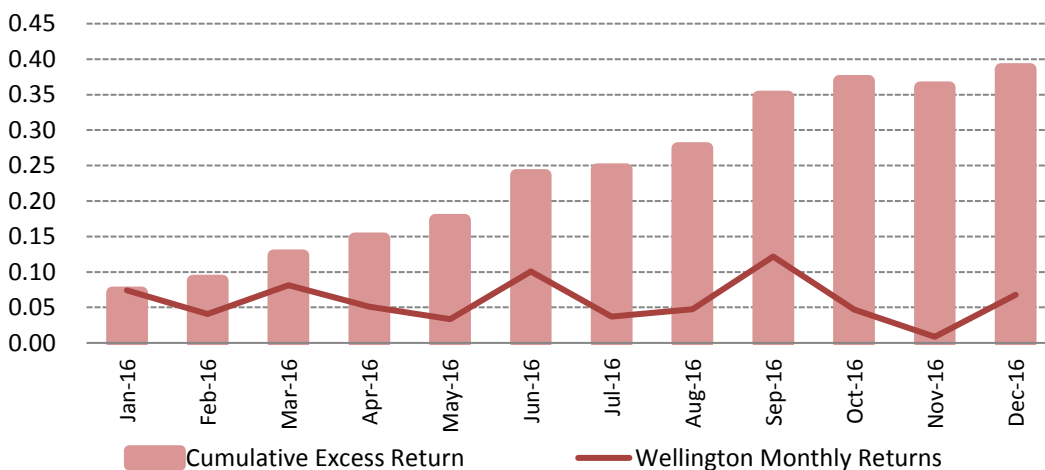


Short-Term Portfolio 2016 Performance and Excess Returns

21. The review of Short Term Investments includes an analysis of our three short duration managers.

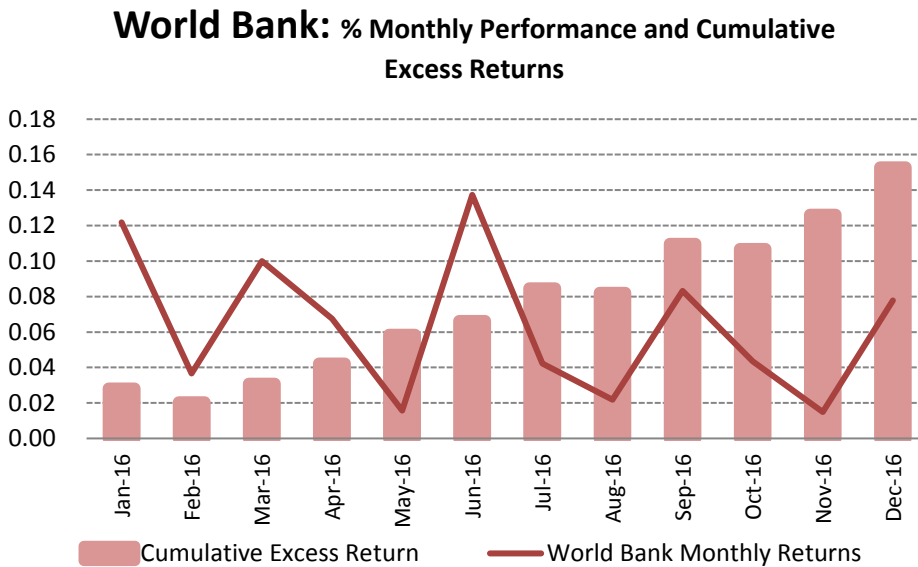
Monthly returns and cumulative monthly excess returns are graphed over the past year.

Wellington Management: % Monthly Performance and Cumulative Excess Returns

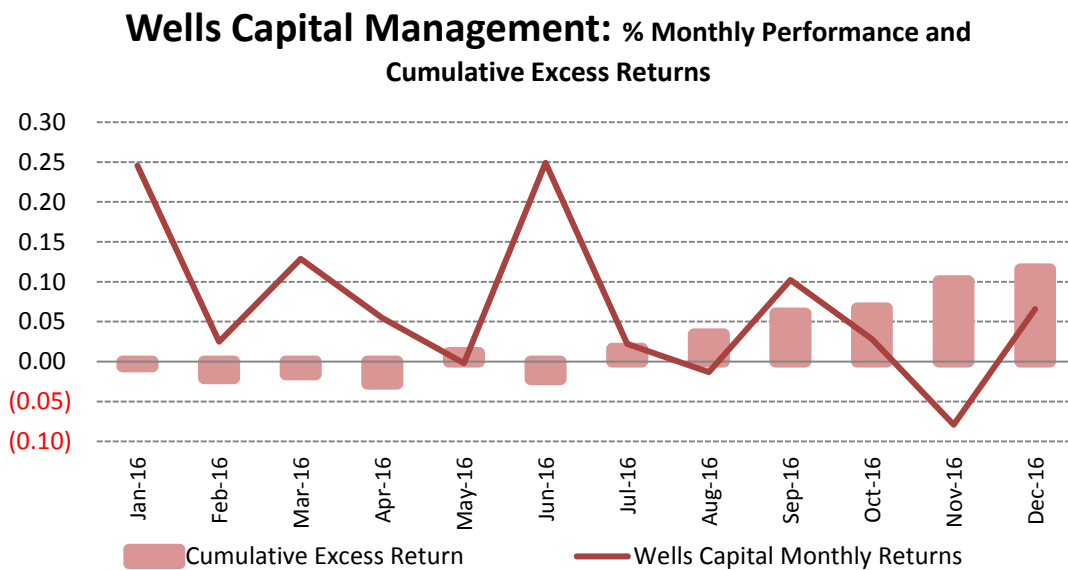


Over the past year, Wellington has provided constant excess returns, exceeding its benchmark by 0.39%.

22. As shown below, in 2016, the portfolio managed by the World Bank generated 0.15% excess return over the benchmark.



23. Over 2016, the Wells Capital portfolio also generated excess return over the benchmark, at year end the cumulative excess return was 0.12%.



Investment Governance at FAO

24. A detailed strategic asset allocation review for Long Term investments is conducted by specialized firms within the context of an Asset and Liability study (ALM). Reviews are conducted approximately every five years. This most recent study was conducted at the end of 2013.
25. Short Term asset allocation strategies are designed in close collaboration with FAO's technical investment advisor, the World Bank.
26. The results of asset allocation studies are reviewed by FAO's internal Investment Committee. Final recommendations are forwarded to the Director General for approval. The Investment Committee is made up of the heads of finance, budget, legal, audit, the treasurers of IFAD and WFP and is chaired by the ADG of Corporate Services (CS). In April 2016, revised Long and Short term investment policies were adopted and can be found in Annex 1.
27. 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 high level experts from organizations such as World Bank, Cornell University, BIS and the Asian Development Bank. The World Bank also serves as the Organization's technical investment advisor.
28. 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 call for tenders with a final selection process carried out with the assistance of the World Bank.
29. Day-to-day control over the external managers, including daily compliance monitoring, is done by the Organization's Treasury unit in the Finance Division. The Treasury unit also provides regular reporting to the Director of Finance, internal Investment Committee and Senior Management. On-site compliance visits to the external asset managers and the securities custodian are carried out by the Treasury unit regularly.
30. 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.

Investment Expenses

31. The table below outlines the investment expenses incurred in the year 2016.
32. Investment related expenditure has decreased noticeably from USD 2.98 million to USD 2.14 million, mainly owing to no performance fee being due to our equity investment manager, PanAgora.
33. Assets have increased from USD 1,446 million in 2015 to USD 1,617 million bringing the overall expense ratio down from 0.21% in 2015 to 0.13% in 2016.

| Investment Service Provided | 2016 Expenditures in USD |
|---|-------------------------------------|
| Management, custodial and advisory fees | 1,427,230.47 |
| Treasury staffing (three professional posts) | 657,724.63 |
| Advisory Committee on Investments Meetings, Investor compliance and Training Costs | 27,403.17 |
| Bloomberg Terminal | 32,885.10 |
| Total Expenses | 2,145,243.37 |
| Total Assets at 31/12/2016 | 1,617,459,325.86 |
| Total Expense Ratio | 0.13% |

FAO Short-Term Investment Policy, revised April 2016

1. INTRODUCTION

- 1.1 Short-Term investments (the “S-T Portfolio”) consist largely of Trust Fund deposits held pending disbursements on project implementation and any cash representing the reserves of Regular Programme and other assets.

2. AUTHORITY

- 2.1 The authority on investments lies with the Director General who, in line with:

- 2.2 Financial Regulation IX 9.1,

has delegated the following responsibilities:

- 2.3 The FAO Investment Committee has direct responsibility for the selection of the financial service providers for investments (Investment Managers, Investment Advisors, Global Custodian), the determination of appropriate fees for such services, and the manager benchmarks.
- 2.4 The **FAO Investment Committee (“IC”)** has the primary fiduciary responsibility to make recommendations to the Director General for the investments of the S-T Portfolio. The IC will be responsible for recommendations on the S-T Portfolio’s Investment Policy: portfolio tranching and benchmarks; the risk tolerance of the S-T Portfolio’s investments; external manager selection; types of instruments and asset classes (USD denominated Fixed Income instruments, Cash, and futures) permitted in the S-T Portfolio.
- 2.5 The **Treasury operations unit (“CSFT”)** has fiduciary responsibilities delegated by the IC and is managed by the Senior Finance Officer and staff. CSFT recommends the implementation of the Investment Policy to the IC and is responsible for day-to-day management of the S-T Portfolio.

3. INVESTMENT OBJECTIVES

- 3.1 The primary objective of the Investment Policy is the preservation of the value of resources, in US dollar terms. Within this general objective the principal considerations for investment management are
- 3.1.1 Security of principal,
 - 3.1.2 Liquidity,
 - 3.1.3 Rate of return
- 3.2 The investment horizon for the S-T Portfolio is one year.

4. ELIGIBLE ASSET CLASSES

4.1 The eligible asset classes for the S-T Portfolio are:

- 4.1.1 USD denominated Fixed Income instruments
- 4.1.2 Futures and Options on assets classes and instruments covered under 4.1.1
- 4.1.3 Time Deposits
- 4.1.4 Cash

5. CURRENCY

5.1 The base currency for the L-T Portfolio for reporting and accounting purposes is the U.S. Dollar.

5.2 No currency exposure versus the US Dollar is permitted in the S-T Portfolio.

6. RISK

6.1 The Organization's risk tolerance for the total S-T portfolio is expressed as a negligible probability of negative return over the specified investment horizon of one year. This reflects the operational necessity of minimizing the probability of negative returns over any yearly period, taking into account current FAO practice relating to allocation of income on trust fund balances.

6.2 Specific attention will be paid to:

- 6.2.1 Market risk: the possibility for an investor to experience losses due to factors that affect the overall performance of the financial markets.
- 6.2.2 Credit and Counter-party risk: the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation and the risk to each party of a contract that the counterparty will not live up to its contractual obligations
- 6.2.3 Liquidity risk: the risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss.
- 6.2.4 Operational risks: a form of risk that summarizes the risks a company or firm undertakes when it attempts to operate within a given field or industry, it includes risks resulting from breakdowns in internal procedures, people and systems, and

7. PORTFOLIO TRANCHING AND BENCHMARKS

7.1 In accordance with the investment principles mentioned above, the available cash balances shall be allocated to one of five tranches of the short term investments portfolio, as provided below.

| Tranche | Benchmark | Allocation |
|--|---|--|
| The DL (daily liquidity) tranche | No Benchmark | invested in 1-7 day Libor based instruments |
| The ML (monthly liquidity) tranche | BofA Merrill Lynch 1-month US T-bill index | Invested in US government, US government-guaranteed instruments or deposits with the BIS (Bank for International Settlements). |
| The 3 ML (3 month duration) tranche | BofA Merrill Lynch 3-month US T-bill index | Invested in US government or US government-guaranteed instruments, or in US government agency securities including futures and options. This tranche shall be managed by external investment manager(s). |
| The 6 ML (6 month duration) tranche | BofA Merrill Lynch US Treasuries Notes & Bonds 0-1 year index | Invested in government securities, government agencies, other official entities and multilateral organization securities, highly ranked bank and other financial institution obligations including futures and options. This tranche shall be managed by external investment manager(s). |
| The 12 ML (1 year duration) tranche | BofA Merrill Lynch US Treasuries Notes & Bonds 0-2 year index | Invested in government securities, government agencies, other official entities and multilateral organization securities, highly ranked bank and other financial institution obligations including futures and options. This tranche shall be managed by external investment manager(s). |

7.2 The strategic asset allocation of the S-T Portfolio and the benchmarks shall be reviewed periodically.

7.3 The overall tranching structure of the short term investments portfolio and the risk tolerance parameters specified in paragraph 8 shall be reviewed at least once every 3-5 years to ensure that the investment policy framework adequately reflects the evolving nature of the Organization's mission and operations.

8. PERFORMANCE EVALUATION FOR THE SHORT TERM PORTFOLIO

8.1 The performance of the S-T Portfolio shall be reviewed quarterly versus the "S-T Benchmark", which will be the average of the returns of the various tranche benchmarks (during the corresponding period), weighted by the percentage of assets allocated to various tranches. Similarly, performance of the S-T Portfolio's investments in each tranche will be reviewed versus the specified benchmark.

8.2 While the IC will review performance of the S-T Portfolio and individual asset class portfolios for various time periods, the focus will be on investment performance quarter to date, year to date and one year investment performance.

8.3 The S-T Portfolio will follow internationally accepted accounting principles and standards in the valuation of its investments.

9. EXTERNAL SERVICE PROVIDERS

- 9.1 External Investment Managers: Many assets of the S-T Portfolio are entrusted to external investment managers. The IC is responsible for ensuring that the S-T Portfolio only employs the highest caliber external investment and fund managers on a competitive and objective basis. CSFT will make its recommendations to the IC after completing its evaluation and necessary due diligence.
- 9.2 Global Custodian: The IC shall appoint a Global Custodian bank for safekeeping of its assets and for processing and settling its various transactions. The responsibilities of the Global Custodian will be specified in a contract between the Organization and the Global Custodian. The Global Custodian will be responsible for core custody products such as safekeeping of assets, settlement of transactions, collection of income, tax reclamation, valuations and portfolio accounting. The Global Custodian may provide other ancillary services such as risk analysis, performance measurement, securities lending, and compliance reporting, in accordance with needs determined by CSFT.

10. EXTERNAL INVESTMENT MANAGERS

- 10.1 Responsibilities: Subject to the contract between the Organization and the external investment manager, the investment manager shall be responsible for making all investment decisions regarding the assets under its management, including the decision to buy, sell and hold securities, and will be held accountable for achieving agreed investment objectives stated in the contract.
- 10.2 Performance Evaluation: The performance of external investment managers shall be measured relative to the benchmark, ex-ante annualized tracking error target, and excess return objective, as specified in the contract. In particular, the main criteria for evaluation will be: i) Excess Returns (defined as the total return on the portfolio less benchmark return; with total return calculated on a time-weighted basis combining capital gains and losses and interest income, adjusting for cash inflows and outflows, and compounding monthly) for rolling 12- and 36-month periods; ii) Ability to manage risk by staying within the ex-ante tracking error target and other investment guidelines specified in the contract; and iii) Information Ratio for rolling 12- and 36-month periods, determined by dividing the annualized Excess Return by the ex-post tracking error (defined as the annualized standard deviation of the monthly Excess Returns).
- 10.3 Termination: The contract of any external investment manager may be terminated for the following reasons:
- 10.3.1 failure to take any actions specified in the contract;
 - 10.3.2 failure to meet the performance objectives specified in the contract;
 - 10.3.3 a significant change in investment style and/or investment process at any time subsequent to their selection as an investment manager by the Organization;
 - 10.3.4 a significant change in the composition of their investment team at any time subsequent to their selection as an investment manager by the Organization;
 - 10.3.5 any change in the S-T Portfolio's investment policy which renders an external investment manager, in the judgment of the Organization, unsuitable to manage the funds entrusted to them; and
 - 10.3.6 any other developments which, in the Organization's judgment, render a manager unsuitable for continuing with their contract.

FAO Long-Term Investment Policy

1. INTRODUCTION

- 1.1 FAO has established the Long-Term Investments portfolio (the “L-T Portfolio”). The principal objective of the L-T Portfolio is to fund the Organization’s share of the following staff-related liabilities:
- 1.1.1 Staff Compensation Plan – Provides benefits in the event of injury, illnesses or death attributable to the performance of official duties.
 - 1.1.2 Separation Payment Scheme – In conformity with the Fleming 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 labor legislation.
 - 1.1.3 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.
 - 1.1.4 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, and Termination Indemnity.

2. AUTHORITY

- 2.1 The authority on investments lies with the Director General, who, in line with Financial Regulation IX 9.1, has delegated the following responsibilities:
- 2.2 The FAO Investment Committee has direct responsibility for the selection of the financial service providers for investments (Investment Managers, Investment Advisors, Global Custodian), the determination of appropriate fees for such services, and the manager benchmarks
- 2.3 The **FAO Investment Committee (“IC”)** has the primary fiduciary responsibility to make recommendations to the Director General for the investments of the L-T Portfolio. The IC will be responsible for recommendations on the L-T Portfolio’s Investment Policy: the strategic asset allocation (“SAA”); the benchmarks for asset classes included in the L-T Portfolio’s SAA; the risk tolerance of the L-T Portfolio’s investments; external manager selection; types of instruments in various asset classes (Global Equities, Global Bonds, and Cash) permitted in the L-T Portfolio; and currency hedging policy.
- 2.4 The **Treasury operations unit (“CSFT”)** has fiduciary responsibilities delegated by the IC and is managed by the Senior Finance Officer and staff. CSFT recommends the implementation of the Investment Policy to the IC and is responsible for day-to-day management of the L-T Portfolio

3. INVESTMENT OBJECTIVES

- 3.1 The overall objective of the investment program of the L-T Portfolio is to be able to provide, over the long-term, adequate resources to finance the funded liabilities and pay the benefits outlined in Clause 1.1.
- 3.2 Accordingly, the investment policy of the L-T Portfolio is developed within an asset-liability management context, and reviewed periodically with explicit reference to an actuarial valuation and main factors driving its liabilities.

- 3.3 Given the long duration of ASMC liabilities (which constitute a majority of the liabilities), the stability of the sponsor, and the recommendations of the ALM study, the appropriate investment horizon is considered to be 15 years or longer.

4. ELIGIBLE ASSET CLASSES

4.1 The eligible asset classes for the L-T Portfolio are:

- 4.1.1 Global Equities, including developed and emerging market equities.
- 4.1.2 Global Bonds, including corporate bonds, High Yield bonds, and covering both developed and emerging market countries.
- 4.1.3 Futures and Options on asset classes and instruments covered in 4.1.1 and 4.1.2
- 4.1.4 Cash

5. CURRENCY

- 5.1 The base currency for the L-T Portfolio for reporting and accounting purposes is the U.S. Dollar.
- 5.2 Currency exposure of the L-T Portfolio should broadly follow the currency exposure of the liabilities, within the constraints of what is practical, feasible, and cost-effective, as determined by the IC.
- 5.3 Currency exposure may be obtained by giving external asset managers benchmarks hedged back to a particular currency.
- 5.4 Tactical currency exposure versus the benchmark is permitted to be taken by external asset managers subject to a range specified in the investment guidelines provided to the external managers.

6. RISK

- 6.1 The risk tolerance of the L-T Portfolio will reflect its SAA (currently 50% Global Equities and 50% Global Bonds) weighting in terms of volatility.
- 6.2 The active management risk budget will be specified in the investment guidelines provided to the various external managers.
- 6.3 The L-T Portfolio shall strive to mitigate risks through diversification of its investment portfolio. In undertaking investments, the L-T Portfolio will pay special attention to
 - 6.3.1 Market risk: the possibility for an investor to experience losses due to factors that affect the overall performance of the financial markets.
 - 6.3.2 Credit and Counter-party risk: the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation and the risk to each party of a contract that the counterparty will not live up to its contractual obligations
 - 6.3.3 Liquidity risk: the risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss.

- 6.3.4 Operational risks: a form of risk that summarizes the risks a company or firm undertakes when it attempts to operate within a given field or industry, it includes risks resulting from breakdowns in internal procedures, people and systems, and
- 6.3.5 Valuation risks for illiquid investments.

7. STRATEGIC ASSET ALLOCATION AND BENCHMARKS

7.1 Based on the investment objectives, and the most recent ALM study, the strategic asset allocation (SAA) for the L-T Portfolio is shown below. The range for the Global Equity/Global Bond allocation will be plus or minus 5% versus these weights.

| Asset Class | Benchmark | Weight |
|------------------------------|---|---------------|
| Developed Int'l Equity | MSCI World | 40.00% |
| Emerging Mkt Equity | MSCI Emerging Mkt. ex Taiwan | 10.00% |
| Total Global Equities | | 50.00% |
| Inflation Linked Bonds | Barclays World Govt. Inflation Linked | 32.00% |
| Government Bonds | Merrill Lynch EMU Direct Govt AAA Bond Index | 8.00% |
| Investment Grade Credit | Barclays EU Credit Corp & Barclays US Credit Corp | 10.00% |
| | (Global Bonds 100% hedged into Euro) | |
| Total Global Bonds | | 50.00% |

- 7.2 The strategic asset allocation of the L-T Portfolio and the benchmarks shall be reviewed periodically.
- 7.3 The overall investment policy will be reviewed at least once every 3-5 years to ensure that the investment policy framework adequately reflects the evolving nature of the L-T Portfolio's liability structure, the actuarial valuation of its liabilities, and its funded status (i.e. ratio of its assets to its liabilities).
- 7.4 CSFT is responsible for rebalancing of the L-T Portfolio. A deviation of maximum +/- 5% is allowed before mandatory rebalancing.
- 7.5 To minimize transaction costs, cash inflows and outflows, including the use of additional contributions, will be used whenever possible to achieve the desired asset mix. The rebalancing will be done based on portfolio market values expressed in USD.

8. PERFORMANCE EVALUATION FOR THE LONG TERM PORTFOLIO

8.1 The performance of the L-T Portfolio shall be reviewed quarterly versus the "Policy Benchmark", which will be the average of the returns of various asset class benchmarks (during the corresponding period), weighted by the percentage of assets allocated to various asset classes in the SAA. Similarly, performance of the L-T Portfolio's investments in individual asset classes will be reviewed versus the benchmarks specified for that asset class.

8.2 While the IC will review performance of the L-T Portfolio and individual asset class portfolios for various time periods, the focus will be on investment performance over relatively long time periods (most importantly, rolling 3 and 5 years).

9. EXTERNAL SERVICE PROVIDERS

9.1 External Investment Managers: The assets of the L-T Portfolio may be entrusted to external investment managers. The IC is responsible for ensuring that the L-T Portfolio only employs the highest caliber external investment and fund managers on a competitive and objective basis. CSFT will make its recommendations to the IC after completing its evaluation and necessary due diligence.

9.2 Global Custodian: The IC shall appoint a Global Custodian bank for safekeeping of its assets and for processing and settling its various transactions. The responsibilities of the Global Custodian will be specified in a contract between the Organization and the Global Custodian. The Global Custodian will be responsible for core custody products such as safekeeping of assets, settlement of transactions, collection of income, tax reclamation, valuations and portfolio accounting. The Global Custodian may provide other ancillary services such as risk analysis, performance measurement, securities lending, and compliance reporting, in accordance with needs determined by CSFT.

10. EXTERNAL INVESTMENT MANAGERS

10.1 Responsibilities: Subject to the contract between the Organization and the external investment manager, the investment manager shall be responsible for making all investment decisions regarding the assets under its management, including the decision to buy, sell and hold securities, and will be held accountable for achieving agreed investment objectives stated in the contract.

10.2 Performance Evaluation: The performance of external investment managers shall be measured relative to the benchmark, ex-ante annualized tracking error target, and excess return objective, as specified in the contract. In particular, the main criteria for evaluation will be: i) Excess Returns (defined as the total return on the portfolio less benchmark return; with total return calculated on a time-weighted basis combining capital gains and losses and interest income, adjusting for cash inflows and outflows, and compounding monthly) for rolling 12- and 36-month periods; ii) Ability to manage risk by staying within the ex-ante tracking error target and other investment guidelines specified in the contract; and iii) Information Ratio for rolling 12- and 36-month periods, determined by dividing the annualized Excess Return by the ex-post tracking error (defined as the annualized standard deviation of the monthly Excess Returns).

10.3 Termination: The contract of any external investment manager may be terminated for the following reasons:

10.3.1 failure to take any actions specified in the contract;

10.3.2 failure to meet the performance objectives specified in the contract;

10.3.3 a significant change in investment style and/or investment process at any time subsequent to their selection as an investment manager by the Organization;

10.3.4 a significant change in the composition of their investment team at any time subsequent to their selection as an investment manager by the Organization;

10.3.5 any change in the L-T Portfolio's investment policy which renders an external investment manager, in the judgment of the Organization, unsuitable to manage the funds entrusted to them; and

10.3.6 any other developments which, in the Organization's judgment, render a manager unsuitable for continuing with their contract.