

UNITED NATIONS OFFICE FOR PROJECT SERVICES

**Headquarters, Copenhagen
4 July 2016**

Organizational Directive No. 45

**Statement of Investment Principles and Investment Committee
Terms of Reference**

1. Introduction:

- 1.1. The Executive Director of UNOPS, in accordance with Rule 122.22 of UNOPS Financial Rules and Regulations (FRRs), hereby establishes an Investment Committee (IC) and promulgates its Terms of Reference (ToR) attached to this Organizational Directives (OD) as Annex I.

2. Purpose:

- 2.1. The purpose of this (OD) is to establish the IC and to promulgate UNOPS Statement of Investment Principles (SIPs) which shall guide the organization in its liquidity investment management activities.
- 2.2. The purpose of the IC is to provide oversight of the liquidity investment management activities in accordance with SIPs set forth in this OD and its ToR.

3. Effective Date:

- 3.1. This OD is effective **immediately**.



Grete Faremo
Under-Secretary-General
Executive Director

1. Glossary of terms

1.1 Terms and expression in this OD shall have the following meaning:

- a) **Active & Passive Management: Active Management** refers to an investment management approach where the manager takes specific investment positions rather than seeking a benchmark exposure with the goal of outperforming an investment benchmark. **Passive Investing or Index Tracking:** An investment approach where a portfolio or fund closely follows the movements of a particular market-capitalised index to provide efficient Asset Class exposure at relatively low cost.
- b) **Asset Class:** A grouping of securities or investments that have similar Risk and Return characteristics, are generally subject to the same laws/regulations and perform in a similar manner in particular market conditions.
- c) **Benchmark:** A reference metric against which the investment performance and Risk can be compared. Benchmarks can be 'Relative' to a market index and/or peers (e.g. MSCI World or UK Mixed Investment 40-85% Shares) or 'Absolute', which references a Risk-free or zero-Return hurdle plus an expected premium (e.g. CPI + 1%).
- d) **Custodian:** A financial institution that holds customers' securities for safekeeping so as to minimize the Risk of their theft, misuse or loss. A custodian holds securities and other assets in electronic or physical form. Custodians generally tend to be large and reputable firms.
- e) **Dynamic Asset Allocation (DAA)** is focussed on intermediate timeframes to accommodate changes within economic/business cycles. DAA involves most Asset Classes including public, private, liquid and illiquid assets, although very illiquid Asset Classes, such as infrastructure, may not be appropriate for timing the cycles. For this time-frame, generally medium-term, asset valuations can be used to tilt the portfolio weightings.
- f) **Objective:** High-level goals that are aligned to an investor's mission and reflect their values, preferences, constraints and priorities. (e.g. Capital Preservation, Growth or Liability Management).
- g) **Rebalancing:** A discipline, which is often mechanical, of regular reallocation between assets that have grown in size within portfolios due to good performance, to assets that have shrunk due to relatively lower performance in order to bring them back to their relative weight in accordance with the Strategic Asset Allocation
- h) **Return:** The gain or loss of a security in a particular period. The total Return consists of the income and the capital gains relative on an investment. It is usually quoted as a percentage.
- i) **Risk:** Situations where it is possible to attach explicit quantifiable probabilities to given alternative future outcomes. Risk can also be seen as exposure to unexpected change that could result in failure to achieve one's desired outcome.
- j) **Strategic Asset Allocation:** An investment approach that focusses on risk weighted returns and based on diversification over various asset classes in a portfolio taking into account (non) correlation between these asset classes. This approach is different to Investment Selection, where the focus is in generating

Returns from choosing different fund managers or individual securities within the same asset class.

- k) **Uncertainty:** Situations where the probabilities of future outcomes are not known and impossible to calculate with any confidence.

2. Introduction

- 2.1 The SIPs are established in accordance with the FRR and take into account best-practice guidelines in respect of the management of assets and wealth. It documents how funds of UNOPS shall be managed and outlines the principles and policies governing investment decisions made by the Executive Director following the advice of the IC
- 2.2 This SIPs shall be reviewed on a regular basis by the IC in collaboration with the Executive Director.

3. Statutory Framework

- 3.1 UNOPS mission is to serve people in need by expanding the ability of the United Nations, governments and other partners to manage projects, infrastructure and procurement in a sustainable and efficient manner as articulated in the Executive Board's decision 2009/25 of 11 September 2009 and further reaffirmed in General Assembly resolution A/RES/65/176. UNOPS vision is to advance sustainable implementation practices in development, humanitarian and peacebuilding contexts, always satisfying or surpassing partner expectations. In this context UNOPS manages the funding needs of its project-operations with utmost care and due regard to its mission Objectives through a number of separate investment portfolios.
- 3.2 The portfolios are as follows and have each their specific characteristics, Objectives and constraints, as explained in this OD and the FRRs:
- a) UNOPS Working Capital Portfolio as per Regulation 10.03 and 11.02 of the FRRs (hereinafter "Working Capital");
 - b) UNOPS Reserves Portfolio as per Regulation 22.01 a) of the FRRs (hereinafter "Reserves");
 - c) UNOPS After Service Healthcare Portfolio as per Rule 122.01 of the FRRs (hereinafter "Healthcare").
- 3.3 The management of the various portfolios shall be performed in the spirit of UNOPS' mission and vision, as set forth in the UNOPS' Mandate and other legislative imperatives, including the FRRs, and shall reflect the relevant values of the organisation, in particular accountability for results, transparency, strong partnerships and excellence. Furthermore, the Risk profile of the investments in the different portfolios shall fully reflect the Risks associated with the liabilities flowing from the different activities (Working Capital, Reserves, and Healthcare).

4. Investment Principles

4.1 **Portfolios Objectives:** UNOPS portfolios as described in this OD shall be managed in accordance with the following Objectives:

- a) Working Capital: Preserve the value of project related funds in real terms to ensure the funding of UNOPS projects.
- b) Reserves: Provide security and liquidity in adverse circumstances and support the long-term operations of UNOPS.
- c) Healthcare: Provide for the after service health-care benefits of the employees of UNOPS by managing assets in relation to relevant liabilities.

4.2 **Asset Allocation:** the allocation of UNOPS portfolios between Asset Classes, currencies or geographies shall comply with the following guiding principles:

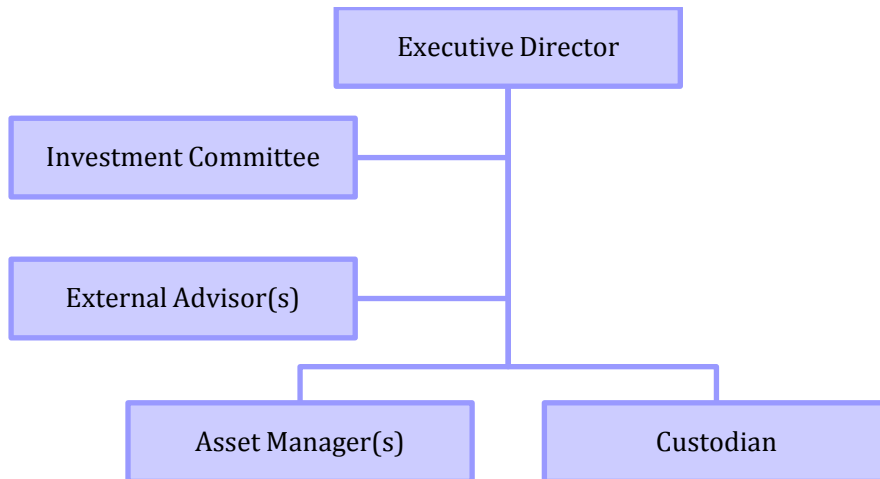
- a) Preservation of capital in real terms is the primary objective;
- b) Liquidity is a key consideration in the management of the UNOPS portfolios, , and a requirement of the FRRs, more specifically Rule 22.02 and 22.06;
- c) The Return obtained in the portfolios is less important than capital preservation and liquidity considerations.
- d) Diversification (across Asset Classes, strategies, geographies, currencies, financial instruments) reduces Risk.
- e) Risks should only be taken when there is an expected Return, i.e. unrewarded Risks is to be avoided.
- f) Fixed income is a core Asset Class for UNOPS given the mission and Objectives of the portfolios it is responsible for.
- g) Currency allocation ranges shall be in line with the Objectives and liabilities of the various portfolios, but will not hedge exposure to foreign currencies in portfolios.

4.3 **Implementation:** timing with respect to any investment or disinvestment from certain asset shall be a consideration taking into account in investment decisions. For that purpose, the implementation of investment decisions shall comply with the following guiding principles:

- a) Although some portfolios could be highly constrained and/or of a "buy-and-hold" type, the portfolios Returns shall be maximised within the agreed limits of Risk.
- b) Active Management can add value net of fees.
- c) Investing passively is an efficient way to get exposure to large liquid equity markets.
- d) Historical asset manager performance is not a guide to future performance.
- e) Derivative instruments will only be used for hedging purposes and in order to mitigate the Risk of the portfolios.
- f) Fees and costs matter should be managed and reduced where appropriate.
- g) Sustainable responsible investing is an important ethical consideration in managing the UNOPS portfolios.

5. Governance Structure

5.1 **Governance structure:** UNOPS portfolios shall be managed pursuant to the FFRs, this OD and in accordance the following governance structure:



Executive Director (ED)

The Executive Director is responsible for taking key investment decisions based on recommendations by the IC, such as approving the Risk budget and oversight of changes to the SIPs. The Executive Director is always invited to attend the IC meetings. ED will ensure that the investment arrangements implemented are in line with the portfolio Objectives and the SIPs.

Investment Committee (IC)

The IC ToR in the appendix of this document details the function, responsibilities and tasks of the IC.

External Advisor(s)

The role of the External Advisor(s) is to provide independent expert advice to the IC and/or to the Executive Director where the IC lacks the necessary expertise and/or resource to exercise its duties. The External Advisor(s) may requested to provide the IC with independent reviews of decisions or recommendations. The External Advisor(s) may be invited to attend the IC if the IC or the Executive Director deems it necessary.

Chief Financial Officer (CFO)

The CFO ensures the implementation of investment decisions made by the ED. As such, the CFO or his/her delegate will liaise and coordinate with the Asset Manager(s) and the Custodian on a regular basis to ensure implementation of investment decisions and custodianship as per the terms of agreements. The CFO is also responsible for accounting and maintaining books with regard to the Portfolios and asset management in accordance with the Accounting standards followed by and Financial Regulations and Rules of UNOPS

Asset Manager(s)

The Asset Manager(s) is(are) responsible for investing assets by selecting securities and funds in line with the strategic allocation between Asset Classes and currencies set by the Executive Director. The Asset Manager will update the IC on a regular basis as per the terms of its agreement. An Asset Manager could also act as a fiduciary manager if UNOPS decides to give such mandate to (one or more of) its Asset Manager(s).

Custodian

The Custodian is responsible for the custody of the assets/securities in the portfolios and provides regular reporting to the IC as per the terms of its agreement. The Custodian may also be requested by UNOPS to provide regular independent performance and Risk calculation and reporting to the IC, as well as necessary investment related accounting entries.

5.2 **Governance matrix:** The table below outlines the matrix for the various types of decisions to be taken:

• Description	• Advisory body	• Decision-making body	• Overseeing body	• Notes
• Review of SIPs	IC and External advisors	Executive Director	Executive Board	• Though the SIPs in general are reviewed occasionally, a review is recommended at least once every three years by the highest body.
• Review of SIPs	IC	Executive Director	N/A	• SIPs should be checked and reviewed every three years.
• Composition of IC and choice of IC chair	IC	Executive Director	N/A	• These appointments are crucial and leadership of the IC is very important for the smooth functioning of the whole structure.
• Risk level/budget	IC and External advisors	Executive Director	N/A	• The IC has an essential role in defining the Risk level/budget, but final decision rests with the Executive Director.
• Strategic Asset Allocation and Risk budget (allocation)	IC, External advisors and Asset manager	Executive Director	N/A	• The IC recommends the strategic high level allocation between asset classes and currencies to be in line with the approved Risk budget,

				for approval by the Executive Director
<ul style="list-style-type: none"> • Manager selection & AMA (Asset Management Agreement) 	IC and External advisors	Executive Director	N/A	<ul style="list-style-type: none"> • The IC should select and review asset managers, and propose AMAs to the Executive Director for approval
<ul style="list-style-type: none"> • Investment reporting, Risk monitoring and investment compliance 	N/A	N/A	IC	<ul style="list-style-type: none"> • All investments will be formally monitored by the IC on a quarterly basis.
<ul style="list-style-type: none"> • Selection of Custodian 	IC and External advisors	Executive Director	N/A	<ul style="list-style-type: none"> • The IC participates in the selection process of the Custodian and makes recommendation for appointment to the Executive Director for approval.
<ul style="list-style-type: none"> • Valuations 	N/A	N/A	IC	<ul style="list-style-type: none"> • The IC will review the valuation of assets and when needed request an independent review.
<ul style="list-style-type: none"> • Fees and costs 	N/A	N/A	IC	<ul style="list-style-type: none"> • The IC will monitor fees and costs at least once a year.

6. Custodian, asset manager and advisors' arrangement

6.1 The Executive Director will consult the IC prior to the selection of an Asset Manager or a Custodian and with respect to the terms and conditions of their corresponding agreements.

6.2 External advisor may be consulted on the choice of a Custodian or an Asset Manager and the terms and conditions of their corresponding agreements.

6.3 The IC shall investigate that the Asset Manager has the appropriate knowledge and experience for managing the fund's assets.

6.3 The Executive Director may request from the Custodian an independent assessment of Risk and performance monitoring of the Asset Manager.

6.4 The Agreement with the Asset Manager shall include the following provisions:

- (a) Discretionary powers to buy and sell investments on behalf of UNOPS, subject to an agreed mandate guidelines and constraints. In cases where assets are managed through pooled, it may not be possible to specify investment guidelines;
- (b) Requirements to promptly notify the IC of any breach of their internal processes, including investment limits and other constraints;
- (c) Requirements to report exposures, Risks and performance on a regular basis. Specific reporting frequencies and details shall be determined by the Asset Classes covered and defined for each mandate. Past performance is not an optimal guide to future outcomes, although historical Returns can help verify the consistency of strategies and exposures implemented for varying economic conditions.

6.5 The performance of the Asset Manager shall be assessed on a three-year rolling Returns basis, after fees.

6.6. Expert advisors can be engaged where needed to provide technical knowledge and support in liaising with the asset manager(s). Such external advisors can be invited to an IC meeting to present and discuss their findings on an occasional or regular basis, and provide independent challenge.

7. SIPs Compliance and review

7.1 The SIPs shall be monitored for compliance on an annual basis by the IC. The Executive Director is ultimately responsible for the SIPs and its contents.

7.2 The SIPs shall be reviewed every three (3) years or following any material changes in investment policy. The IC shall review the SIPs and propose changes, if required, to the Executive Director for approval.

7.3 Any such review will be based on written expert investment advice, in consultation with stakeholders as defined in the governance structure in section 5 of this OD.

ANNEX I

INVESTMENT COMMITTEE (IC) TERMS OF REFERENCE

1. PURPOSE

The IC is the independent investment advisory body assisting the UNOPS Executive in its management and oversight of UNOPS's assets including the selection and review of asset managers

2. COMMITTEE COMPOSITION, GOVERNANCE AND VOTING

The Executive Director shall appoint the members of the IC Which shall consists of the Chair plus a maximum of 6 other Members (including the CFO and the General Counsel of UNOPS) representing skills and experience in financial markets and/or in reviewing investment portfolios. Three to five members of the IC are to possess strong technical skills and are professionals external to UNOPS in order to provide independent judgement. The selected asset manager(s) can be invited to attend IC meetings when appropriate, but is (are) not IC member(s).

A minimum of 4 members, at least one internal member and two external professional members, must attend IC meetings to be quorum.

The Chair of the IC will report on a regular basis to the Executive Director and Deputy Executive Director of UNOPS.

Voting is decided by majority, with the Chair's vote as dominant in the event of a tie.

3. STANDING AGENDA, RESPONSIBILITIES AND TASKSQUARTERLY AGENDA ITEMS:

- a) **Monitor Allocation Implementation and Allocation of Risk Budget:** The IC is responsible for monitoring the strategic allocation of assets to ensure it stays within the approved Risk Budget, including implementation of asset and currency allocation. IC members will provided with monthly reports from the Custodian and the asset manager(s); their quarterly reports will be discussed at scheduled IC meetings.
- b) **Dynamic Asset Allocation (DAA) and Rebalancing:** The IC is responsible for advising on dynamic allocations within the boundaries outlined in the Statement of Investment Principles (SIPs) and the Rebalancing policy as stated in the SIPs. The ED, as advised by the IC, can choose to delegate DAA and/or Rebalancing to an asset manager within the boundaries of an Asset Management Agreement.

- c) **Investment Reporting, Risk Monitoring and Investment Compliance:** The IC is responsible for the monitoring of Return (vs appropriate Benchmarks), Risk and compliance of investments on a quarterly basis.

4. NON-STANDARD ITEMS

- a) **Setting Risk Budget and defining strategic allocation:** The IC is responsible for recommending a Risk budget and the strategic high level allocation between Asset Classes and currencies to the Executive Director for approval.
- b) **Manager Selection and Asset Management Agreements (AMAs):** The IC participates in the selection and review of asset manager(s) for discretionary and/or constrained mandates, and proposes AMAs for approval by the Executive Director.
- c) **Selection of Custodian:** The IC participates in the selection and review of Custodian(s), and makes recommendation of the selection and custody agreement for approval by the Executive Director.
- d) **Monitoring of Fees & Costs:** The IC is responsible for monitoring fees and costs associated with asset management as needed but at least on an annual basis.
- e) **Review and compliance:** The IC shall document the investment process and ensures its compliance with this OD As stated in Section 7 of this OD, it will review the SIPs and propose any changes to the Executive Director for approval.
- f) **Valuations:** The IC is responsible for overseeing valuation of assets, and when needed, shall request an independent review.

5. FREQUENCY AND LOCATION OF MEETINGS

IC meetings will be scheduled on a quarterly basis. The IC can schedule additional meetings and/or have conference calls and/or discussions by email whenever there is a need. All IC meetings and conference calls will be minuted. These minutes will be distributed to the IC members and the Executive Director of UNOPS.

IC meetings are typically held in Copenhagen. IC meetings can be held elsewhere if a month or a shorter notice if agreed by IC members, is provided to all members.