Coordinating Committee for International Staff Unions and Associations

PETITION

on the proposed outsourcing of the Fixed Income (FI) Portfolio

FACT SHEET

1. Recently the Representative of the Secretary-General (RSG), who runs the Office of Investment Management at the pension fund proposed passive external management of an initial 65% of the Fixed Income (FI) portfolio, rising to up to 75% over three years - around $16 billion stating that the portfolio has underperformed over the last 15 years. The proposal, which created concerns within the pension fund, was not going to be shared with the Pension Board until the CCSIUA staff union federation intervened and called for the proposals, developed in secret, to be made public.

2. The RSG was then required to present is proposal to the federations and the board. Based on an analysis of the presentation, there will be 3 external managers (Wall Street firms) who will each manage in excess of $5 billion each.

3. This sudden move towards outsourcing contradicts the RSG's earlier, statement to the July 2021 Pension Board that emphasized internal management as part of measures to correct the issues with the fixed income portfolio. The RSG stated that "the proposed budget for 2022 and the new asset allocation and benchmarks would help correct that situation". (Ref: paragraph 18 A/76/297). The budget included new investment officer posts to strengthen internal management and the understanding made to the board was that external management would be avoided.

4. Later the RSG wrote the General Assembly providing further reassurances that management of funds would remain inhouse. In answer to an ACABQ recommendation the RSG wrote "*As is evident, **managing each portfolio internally makes the Fund more efficient than its peers that manage externally***" [Ref: A/76/297-Annex V- page 323.]

    a. The CEM Benchmarking Study referred to in the ACABQ response confirmed that UNJSPF's "<u>internal</u> investment <u>costs</u> were <u>lower</u> than peers <u>in every asset class</u>"

    b. There was no mention of external management or outsourcing of FI in the July 2021 Pension Board report nor in the following ACABQ report.

    c. The General Assembly approved 31 additional posts for the OIM 2022 budget. There was no mention of the need for external management of Fixed Income.

New Investment Policy

5. <u>CCISUA notes the new</u> Investment Policy (IPS)/Asset Allocation (SAA) will be implemented on 1 July 2022 in line with the SAA study completed in April 2021:

a. Reduce volatile Emerging Market Debt to one-fifth of the 2019 SAA which was responsible for half FI under performance.
b. Reduce securitized investments to two-thirds 2019 IPS which was responsible for half FI underperformance.

***CCISUA therefore believes these actions, as earlier stated by the RSG, will fix the problems with the FI portfolio so it performs close to the benchmark as stated by the RSG last July* -** See paragraph 18 A/76/297.

In the absence of a comprehensive analysis of the fixed income underperformance or cost/benefit analysis CCISUA has been presented with the following:

Costs

6. The cost schedule shared with federations and the Board shows that the original cost will be .018 percent and not .01 percent as stated in the UNJSPF statement of 25 February this is almost twice the amount held out. ($3 million to $4 million per year);

7. The "glide path" never returns all our funds to internal management after the "transition period" years; and

8. If 3 external managers are maintained, when funds are gradually returned to internal management, the costs can actually rise in accordance with the cost schedule provided.

Benefit

9. $60 million dollars less $3-$4 million per year . See Message from the RSG dated 11 March 2022

Based on this and other information provided and review of ACABQ/BOA/ and OIOS recommendations ***CCISUA believes that OIM staff can have the same or better results for such a large investment of $16 billion. Instead the Secretary-General can authorize OIM to do the (easier) passive management of Fixed Income funds proposed to be outsourced, using the same tools which are already in use in OIM; and save us at least $3-$4 million per year.***