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**Executive Board  
Annual Session**

**Rome, 4–8 June 2007**

# RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

*For information\**

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## REPORT ON WFP'S INVESTMENT PERFORMANCE



\* In accordance with the Executive Board's decisions on governance, approved at the Annual and Third Regular Sessions, 2000, items for information should not be discussed unless a Board member specifically requests it, well in advance of the meeting, and the Chair accepts the request on the grounds that it is a proper use of the Board's time.

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## NOTE TO THE EXECUTIVE BOARD

**This document is submitted to the Executive Board for information.**

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal points indicated below, preferably well in advance of the Board's meeting.

Deputy Chief Financial Officer, CFO\*: Mr E. Whiting tel.: 066513-2701

Chief, CFOT\*\*: Mr R. van der Zee tel.: 066513-2544

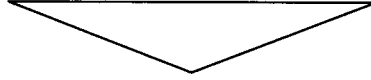
Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact Ms C. Panlilio, Administrative Assistant, Conference Servicing Unit (tel.: 066513-2645).

\*Office of the Chief Financial Officer

\*\* Office of Treasury and Payments



## DRAFT DECISION\*



The Board takes note of “Report on WFP’s Investment Performance” (WFP/EB.A/2007/6-I/1).

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\* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document (document WFP/EB.A/2007/15) issued at the end of the session.



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## INTRODUCTION

1. This document is presented in response to a request made by the Board following review of the “Report of the External Auditor on Treasury Management” (WFP/EB.1/2007/6-B/1) at its First Regular Session of 2007. It describes WFP’s investment portfolios, investment strategy for each portfolio and investment performance since inception. A more extensive overview of WFP’s cash and investment management strategies was presented to the Board at its Second Regular Session of 2006 in “Report on Changes in WFP’s Investment Policy” (WFP/EB.2/2006/5-I/1).
2. WFP has three investment portfolios:
  - a short-term investment portfolio with a market value of US\$820.1 million as of 31 December 2006;
  - a long-term investment portfolio with a book value of US\$56.8 million as of 31 December 2006; and
  - Staff Benefit Funds portfolio with a market value of US\$92.1 million as of 31 December 2006.

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## SHORT-TERM INVESTMENT PORTFOLIO

3. The short-term investment portfolio consists of high quality fixed-income and money market investments in cash and equivalents, sovereigns, treasuries/agencies, corporates and mortgage-backed and asset-backed securities. The average credit quality of the portfolio was AA in 2006.
4. The short-term investment portfolio has an inception date of 1 February 2000. The investment policy for this portfolio was amended on 1 January 2007, primarily to enhance financial risk management (see document WFP/EB.2/2006/5-I/1).
5. Average annual investment return for the portfolio was 4.07 percent for the period 1 February 2000 – 31 December 2006; the annual return for 2006 was 5.16 percent. The portfolio is managed by external investment managers selected by competitive search; three external investment managers currently manage the portfolio; six investment managers have been used over the past seven years. The performance of the investment managers is assessed against a performance index that is a proxy for three months inter-bank deposits plus an excess return target of 0.50 percent per annum. Since inception in February 2000, the short-term investment portfolio generated an average annual return of 0.43 percent over the performance index, just below the target performance benchmark, which includes the excess return target of 0.50 percent. Given the high quality and low-risk profile of the short-term investment portfolio, the investment return is reasonable.

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## LONG-TERM INVESTMENT PORTFOLIO

6. The long-term investment portfolio consists in its entirety of investments in United States Treasury STRIPS. The performance of the long-term investment portfolio is not assessed in this document because the securities are to be held to maturity to guarantee the payment of interest and principal of a commodity loan entered into by WFP in 2000.



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## STAFF BENEFIT FUNDS PORTFOLIO

7. The Staff Benefit Funds portfolio is a segregated long-term investment portfolio invested in equity and fixed-income securities; it was established to meet the liabilities of three staff compensation schemes. The portfolio has an inception date of 1 July 2003. On the basis of a 2003 asset-liability study, 60 percent of the portfolio has been invested in global fixed-income securities; 40 percent has been invested in global equities.
8. The Staff Benefit Funds portfolio is managed by two external investment managers under investment mandates that reflect the long-term nature of the liabilities for which investments are made.
9. Average annual investment return for the Staff Benefit Funds portfolio was 7.41 percent for the period 1 July 2003 – 31 December 2006; the annual return for 2006 was 10.58 percent. The average annual return is above the 6.5 percent expected rate of return used in the latest actuarial valuation of the liabilities of the three staff benefit schemes.
10. The performance of the global fixed-income portfolio and global equities portfolio is assessed against performance benchmarks. Since inception, the global fixed-income portfolio almost achieved the performance benchmark – return of 3.35 percent against 3.53 percent benchmark return. The global equities performance has been very good in absolute terms since inception, averaging 14.58 percent per annum; but it under-performed against the performance benchmark of 18.50 percent return; the external investment manager responsible for the global equities portfolio was therefore replaced in 2005. The overall growth of the Staff Benefit Funds portfolio has been strong, with gains since inception of US\$19.7 million.