

**Operational Instruction Ref. OI.ED.2021.01****Statement of Investment Principles  
and  
Investment Advisory Committee Terms of Reference****1. Introduction:**

1.1. As the Executive Director of UNOPS, in accordance with Rule 122.22 of UNOPS Financial Rules and Regulations (FRRs), I hereby promulgate UNOPS Statement of of Investment Principles (SIPs), and establish an Investment Advisory Committee (IAC) and promulgate its Terms of Reference attached to this document as Annex VII.

**2. Purpose:**

2.1. The purpose of this document is to establish the IAC and to promulgate UNOPS SIPs which shall guide the organization in the liquidity & investment management activities for its own Reserves as well as for the operations financed by members and sponsors (Working Capital) where UNOPS acts as a Trustee of funds.

2.2. The purpose of the IAC is to provide oversight of the liquidity & investment management activities in accordance with SIPs set forth in this document.

2.3. Changes to this document shall be made with the prior consultation of the IAC for advice. The Annexes to this OI can be revised by the CFO, in consultation with the IAC and the Executive Director, from time to time.

**3. Effective Date:**

3.1. This document shall become effective **immediately**.

**4. Consequential Changes:**

4.1. This OI shall abolish and replace OI.ED.2018.02: Statement of Investment Principles and Investment Committee Terms of Referenced as of the effective date of this document. The purpose of this revision is to add details of portfolio investment guidelines as outlined in UNOPS AMA's with its managers to the annexes of the OI.

[signature redacted]

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Grete Faremo  
Executive Director

**Operational Instruction Ref. OI.ED.2021.01**

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

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## **1. Purpose and Periodic Review**

1.1 The SIPs are established in accordance with the Financial Rules and Regulations of the Organisation and take into account best-practice guidelines in respect of the management of assets and financial resources. They document how funds of UNOPS shall be managed and outline the principles and policies governing investment decisions made by the Executive Director with the advice of the IAC

1.2 These SIPs shall be reviewed on a regular basis by the IAC in collaboration with the Executive Director.

## **2. Statutory Framework**

2.1 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.

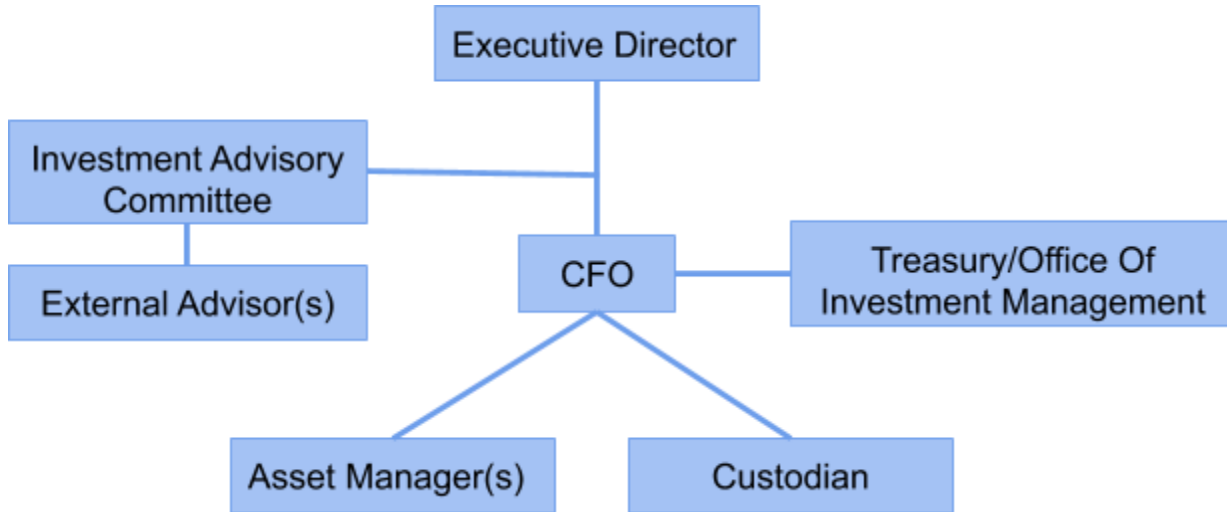
2.2 The portfolios are as follows and each have specific characteristics, Objectives and constraints, as explained in this document and the FRR:

- a) UNOPS Working Capital Portfolio as per Regulation 10.03 and 11.02 of the FRRs (hereinafter "Working Capital");
- b) UNOPS Operational Reserves Portfolio as per Regulation 22.02 a) of the FRRs (hereinafter "Operational Reserves");
- c) UNOPS Growth and Innovation Reserves Portfolio as per Regulation 22.02 a) of the FRRs (hereinafter "Growth and Innovation Reserves");
- d) UNOPS After Service Healthcare Portfolio as per Rule 122.01 of the FRRs (hereinafter "ASHI").
- e) UNOPS Treasury Cash Management Portfolio as per Regulation 22.01 of the FRRs

2.3 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 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 suitably reflect the Risks associated with the liabilities flowing from the corresponding activities

### 3. Governance and Responsibilities

3.1 **Governance structure:** UNOPS portfolios shall be managed pursuant to the FRRs, this document and in accordance the following structure:



#### **Executive Director (ED)**

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

#### **Investment Advisory Committee (IAC)**

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

#### **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 assets in the various Portfolios and asset management activities in accordance with the Accounting standards and the Financial Regulations and Rules of UNOPS

#### **Treasury**

The Executive Director may delegate to UNOPS Treasury any investment management activities. They must adhere to the policies, procedures and practices set forth in this SIP. The Treasury department is responsible for the day to day management of the portfolios, either overseeing the

external asset managers, or acting as an internal portfolio manager. They are responsible for day to day compliance of the asset manager and custodian with this SIP.

**External Advisor(s)**

The role of the External Advisor(s) is to provide independent expert advice to the IAC and/or to the Executive Director where the IAC seeks complementary expertise and/or resources in order to be able to carry out its advisory role (e.g. ALM analysis, external asset managers selection). The External Advisor(s) may be invited to attend the IAC meetings if the IAC or the Executive Director deems it necessary.

**Asset Manager(s)**

The Asset Manager(s) is(are) responsible for investing assets by selecting securities in line with the strategic allocation set by the Executive Director in a specific mandate. The Asset Manager will update UNOPS CFO on a regular basis as per the terms of its agreement. UNOPS CFO will be responsible for further reporting to the Executive Director and IAC. An Asset Manager could also act as a fiduciary manager if UNOPS decides to give such a 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 UNOPS CFO as per the terms of its agreement. UNOPS CFO will be responsible for further reporting to the Executive Director and IAC and the Custodian may also be requested by UNOPS to provide regular independent performance and risk calculation and reporting to the IAC, as well as necessary investment related accounting entries.

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

<b>Description</b>	<b>Advisory body</b>	<b>Decision-making body</b>	<b>Overseeing body</b>	<b>Notes</b>
Review of SIPs	IAC and External advisors	Executive Director	Executive Director	Though the SIPs in general are reviewed occasionally, a review is recommended at least once every three years by the highest body.
Composition of IAC and choice of IAC chair	IAC	Executive Director	N/A	It is important for the membership of the IAC to appreciate the

				importance of the objectives of the investment activities undertaken in the different portfolios and their related risk profiles.
Risk Limits	IAC and External advisors	Executive Director	N/A	The IAC has a role in advising the Risk Limits, but the final decision rests with the Executive Director.
Strategic Asset Allocation and Risk budget allocation	IAC, External advisors and Asset manager	Executive Director	N/A	The IAC reviews the strategic allocation of the different portfolios to be in line with the approved portfolio risk profiles, for approval by the Executive Director.
Manager selection & AMA (Asset Management Agreement)	IAC and External advisors	Executive Director	N/A	The IAC should assist in the processes in relation to asset manager selection, and advise on AMAs to the Executive Director for approval.
Investment reporting, Risk monitoring and investment compliance	N/A	N/A	IAC	The IAC should review, at least quarterly, the performance reports from the custodian and asset manager, and highlight anything of note to the UNOPS CFO for further action.
Selection of Custodian	IAC and External advisors	Executive Director	N/A	The IAC should assist in the processes in relation to custodian selection, and advise on Master

				Custody Agreements (MCA) to the Executive Director for approval.
Valuations	N/A	N/A	IAC	The IAC will review the valuation of assets and when needed request an independent review. This would be particularly relevant when investing in unlisted securities/alternative assets.
Fees and costs	N/A	N/A	IAC	The IAC will monitor fees and costs at least once a year with a view to ensure competitive pricing for AM services.

### **3.3 SIPs Compliance and review**

3.3.1 The SIPs shall be monitored for compliance on an annual basis by the Executive Director with advice from the IAC. The Executive Director is ultimately responsible for the implementation of the SIPs and its contents.

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

3.3.3 Any such review will be based on written expert investment advice, in consultation with stakeholders as defined in the governance responsibilities structure in section 3.2 of this document.

### **3.4 Custodian, Asset Manager, and Advisors arrangements.**

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

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

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

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

3.4.5 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 vehicles, it may not be possible to specify investment guidelines;
- b) Requirements to promptly notify the CFO of any breach of the managers 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. Whilst past performance is not an optimal guide to future outcomes, a historical return can help verify the consistency of strategies and exposures implemented for varying economic conditions.

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

3.4.7 Expert advisors can be engaged where needed to provide technical knowledge. Such external advisors can be invited to an IAC meeting to present and discuss their findings on an occasional or regular basis, and provide independent challenge.

#### **4. Investment Management and Implementation**

The following relate to all UNOPS portfolios, with specifics for each portfolio covered in the corresponding Annexes of this SIP. The implementation of all investment decisions shall comply with the following guiding principles:

##### **4.1. Investment Parameters**

4.1.1. Although some portfolios could be highly constrained and/or of a "buy-and-hold" strategy, the portfolio's Returns shall be maximised within the agreed limits of risk as defined in the Annexes for each portfolio.

4.1.2. Historical asset manager performance is not a guide to future performance.

4.1.3. Fees and costs should be managed and reduced where appropriate.

##### **4.2. Investment Time Horizon**

4.2.1. The time horizon is specific to each portfolio and should be in line with the portfolio objective as outlined in the Annexes to this document.

##### **4.3. Investment Portfolio**



4.3.1. The strategic asset allocation (SAA) for each portfolio will be stated in the annex of this document which is relevant to each portfolio

4.3.2. Timing with respect to any investment or disinvestment from certain assets shall be a consideration taken into account in investment decisions.

4.3.3. Active Management can add value net of fees in certain markets.

4.3.4. Risks should only be taken when there is an appropriate expected Return, i.e. unrewarded Risks are to be avoided.

4.3.5. Diversification (across Asset Classes, strategies, geographies, currencies, financial instruments) reduces Risk.

#### **4.4. Liquidity**

4.4.1 For the purpose of these Investment Guidelines, “marketable” refers to a security for which a public market exists, having such liquidity and other characteristics that it would be reasonable to conclude that an investment, in the maximum size held at any one time, could be liquidated promptly (within five (5) business days) and without incurring undue transaction or market costs.

#### **4.5. Mitigation of Reputational Risk**

4.5.1. The Executive Director, and his/her delegates, will strive, on a best efforts basis, to ensure that the investments of the portfolios conform to the high ethical standards of the United Nations, and do not expose UNOPS to reputational risk.

#### **4.6. Sustainable Investing Approach**

4.6.1. Sustainable Responsible Investing is an important ethical consideration in managing the UNOPS portfolios. The Executive Director acknowledges UNOPS’ responsibility to society as part of the international community and its commitment to social progress. The Executive Director references such internationally recognized sustainability-related initiatives, including but not limited to, the Principles for Responsible Investment (PRI) and its association with the United Nations Global Compact (UNGC) and the United Nations Environment Programme (UNEP) Finance Initiative.

4.6.2. A sustainable investment strategy should be aligned with the organisation’s fiduciary duty and responsibility, and include *where applicable*, material environmental, social and governance (ESG) considerations throughout the investment decision-making process. Portfolios that have integrated material ESG metrics in their investment decision-making process have the potential to provide returns that may be superior to those of conventional portfolios, while exhibiting lower risk over the long term.

4.6.3. Any external asset manager of the investment portfolios selected are required to be a signatory of the United Nations supported PRI. The Custodian selected is required to be signatory of either the PRI or the United Nations Environment Programme (UNEP) Finance Initiative.

4.6.4. If it is possible within the eligible investment universe and risk limits of the portfolios, the investment strategy should seek to promote sustainable business practices and stewardship that advocate improvement of the environment, fair labour practices, non-discrimination and the protection of human rights. This could be done so with reference to such internationally recognized sustainability-related initiatives as the UNEP FI, PRI, the UNGC, the Global Reporting Initiative, and the conventions of the International Labour Organization. Further details on how this is to be achieved will be covered in the Investment Guidelines of each portfolio as can be seen in the SIP Annexes, and will be written into the Asset Management Agreements (AMA) with any external manager.

4.6.7. Voting Policy:

4.6.7.1 The investment policies should adhere to a sustainable investment proxy voting policy. A sustainable voting policy references globally recognized sustainability-related initiatives such as the Principles for Responsible Investment (PRI). The aim is to promote sustainable business practices, fair labour practices, non discrimination, the protection of human rights, and gender diversity on boards, and to advance positive corporate ESG actions which promote practices that mitigate financial and reputational risk among other objectives.

4.6.7.2. An active sustainable voting policy combined with an engagement approach can create a more effective and sustainable impact. A constructive dialogue with company management can positively affect corporate behavior and promote change consistent with sustainability and our fiduciary responsibilities.

4.6.7.3. In an instance that a voting right is granted to a position held in any of the portfolios, the appropriate response in line with 4.6.7.1. and 4.6.7.2. will be considered which may include a request to the manager to utilise an internationally recognised sustainable proxy voting guidelines.

## **5. Risk Management**

### **5.1. Risk Tolerance**

5.1.1. Risk Tolerance can be defined as is the amount of risk the organisation is willing to take in order to achieve its goals. A strategic asset allocation for each portfolio is selected with input from the IAC and stated in the annex of this document relevant to each portfolio. The portfolios will then be managed in accordance with that SAA and related risk limits to manage risks in the investment portfolio as stated (see separate annexes), and such risk limits are reviewed on an annual basis in consultation with the IAC.

### **5.2. Risk Limits**

5.2.1. Total Portfolio Risk - The total portfolio Value at Risk (VaR) will be monitored, which assesses the portfolio's potential loss, at different probability levels, over different time frames. This will be measured over the investment horizon of the specific portfolio.

5.2.2. Active Risk - This is defined as the variation of the portfolio's investment performance from the performance of the benchmark assigned to that portfolio (Tracking Error). Tracking Error is defined as one standard deviation of the difference between the return of the actual total Fund portfolio and the return of the Benchmark, and versus individual portfolio benchmarks. A limit for each portfolio is stated (see annexes), and such risk limits are reviewed on an annual basis in consultation with the IAC. Active risk can be applied to not only performance tracking error, but also to other parameters which will be outlined from time to time in the portfolio investment guidelines.

5.2.3. Risk Budget - An overall Risk Budget for active risk may be set for each portfolio, with the objective of allocating risk among asset classes where it may be used in order to add the most value to the total portfolio.

5.2.4. Actual risk in the portfolios will be monitored to ensure it remains within the established risk tolerance for that portfolio, and reported to the Executive Director and IAC at the IAC meetings, or more regularly if required.

5.2.5. It is acknowledged that risk in certain portfolios may temporarily exceed the established risk tolerance at times of heightened market volatility. Such occurrences shall be reported to the Executive Director via the CFO and the risk of the portfolios shall be brought back within the established limit as soon as reasonably possible.

### **5.3. Asset Liability Management**

5.3.1. Where appropriate, a regular Asset Liability Management study shall be performed to examine the financial condition of the portfolios in respect to their liabilities, estimate the feasibility of achieving its long-term investment return targets, and propose a feasible and implementable SAA consistent with the objectives of the fund.

## **6. Securities Lending**

6.1 Securities lending is allowed across all the portfolios within strictly defined parameters, see Annex VI for further detail.

**ANNEXES**

**[ANNEX I: UNOPS Working Capital Portfolio](#)**

**[ANNEX II: UNOPS Operational Reserves Portfolio](#)**

**[ANNEX III: UNOPS Growth and Innovation Reserves Portfolio](#)**

**[ANNEX IV: UNOPS ASHI Portfolio](#)**

**[ANNEX V: UNOPS Treasury Cash Management Portfolio](#)**

**[ANNEX VI: Securities Lending](#)**

**[ANNEX VII: Investment Advisory Committee \(IAC\) Terms of Reference](#)**

**[ANNEX VIII: Glossary of terms](#)**