

Operational Instruction Ref. OI.FG.2024.09 Statement of Investment Principles (including Governance and Responsibilities) - Investment of UNOPS Funds

Purpose

1. The purpose of this document is to:
 - 1.1. Set out how the cash, cash equivalents and other financial assets under UNOPS management are invested; and
 - 1.2. Outline the principles and policies governing investment decisions made by the Executive Director with the advice of an Investment Advisory Committee (IAC) and other financial investment professionals.
2. Changes to this document may be made with the prior consultation of the IAC for advice. The Annexes to this OI can be revised by the UNOPS CFO, in consultation with the IAC and the Executive Director, from time to time.

Effective Date:

This document shall become effective **immediately**.

Promulgation Date:

25 Sep 2024

Consequential Changes:

4. This OI shall abolish and replace OI.ED.2021.01: Statement of Investment Principles and Investment Committee Terms of Reference as of the effective date of this document. The purpose of this revision is to:
 - 4.1. Add details of portfolio investment guidelines (as outlined in the Asset Management Agreements (AMAs) with UNOPS' external asset manager(s)) to the annexes of the OI;
 - 4.2. Remove the references to UNOPS Growth and Innovation Reserves Portfolio (which has been discontinued); and
 - 4.3. Streamline the OI.

[signature redacted]

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1. Introduction

- 1.1. UNOPS partners provide funds to enable UNOPS to work for the benefit of those in need and other stakeholders.
- 1.2. UNOPS invests these funds in low-risk financial instruments to obtain investment returns that can be used for the benefit of those in need and other stakeholders.
- 1.3. UNOPS also invests funds that have been set aside to provide after-service health insurance in the future.
- 1.4. This Statement of Investment Principles (SIP):
 - a) Sets out how the cash, cash equivalents and other financial assets under UNOPS management are invested; and
 - b) Outlines the principles and policies governing investment decisions made by the Executive Director with the advice of an Investment Advisory Committee (IAC) and other financial investment professionals.

2. Legislative Framework and UNOPS Portfolios

2.1 The financial assets under UNOPS management are in the following Portfolios¹

- 2.1.1. UNOPS Working Capital Portfolio: this consists of the accounts established pursuant to Financial Regulations 10.03² and 11.02³;
- 2.1.2. UNOPS Operational Reserve Portfolio: this consists of the operational reserve established pursuant to Financial Regulation 22.02⁴(a);
- 2.1.3. UNOPS After Service Health Insurance (ASHI) Portfolio: this consists of the reserve established pursuant to Financial Rule 122.01(a)⁵; and
- 2.1.4. UNOPS Treasury Cash Management Portfolio: this consists of the cash and cash equivalents in UNOPS custody, which must be managed in accordance with Financial Regulation 22.01⁶.

¹In the past, UNOPS had a Growth and Innovation Reserves Portfolio. This has been discontinued.

²Financial Regulation 10.03 states "There shall be established UNOPS project account(s) to which all contributions received/receivable by UNOPS shall be credited and against which all costs incurred by UNOPS on behalf of its client and/or funding source and all project revenue earned by UNOPS shall be charged."

³Financial Regulation 11.02 states "...specific accounts may be established by the Executive Director to manage and/or administer project funds, including multi-donor trust funds. Such establishment may include, but not be limited to, acting in response to a request by the Secretary-General to provide assistance pursuant to resolutions of the Security Council or the General Assembly."

⁴Financial Regulation 22.02 states “Within the UNOPS accounts, the following reserves may be established:

(a) An operational reserve at a level set by the Executive Board. The purpose of the operational reserve is to guarantee the financial viability and integrity of UNOPS as a going concern. The operational reserve shall be fully funded and held in irrevocable and promptly available liquid assets. The elements to be compensated for and covered by it shall be limited to:

(i) Downward fluctuations or shortfalls in revenue;

(ii) Uneven cash flows;

(iii) Increases in actual costs above planning estimates or fluctuations in project costs; and

(iv) Other contingencies which result in a loss of resources for which UNOPS has made commitments.”

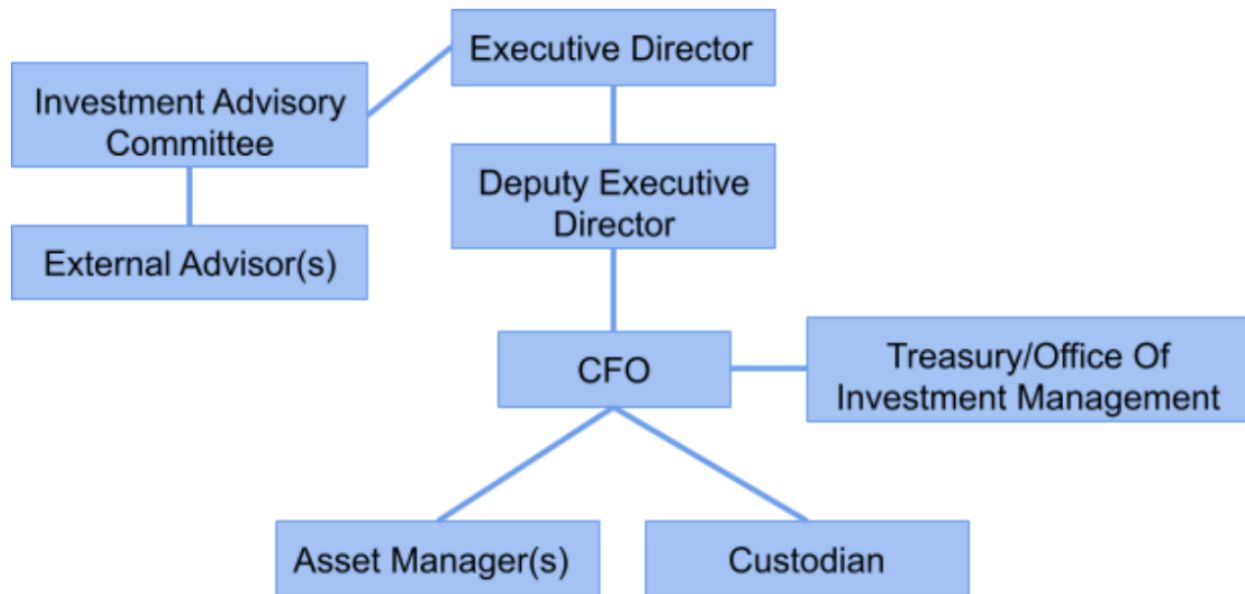
⁵ Financial Rule 122.01(a) states “UNOPS may establish reserves to provide for: (a) compensation in respect of injury, illness, or death of personnel;...Such reserves may be funded by allotments from the management budget and by contributions specified in project agreements.”

⁶ Financial Regulation 22.01 states: “The Executive Director, under the authority delegated by the Secretary-General as custodian of all UNOPS financial assets, is responsible and accountable for the effective and efficient management of cash and cash equivalents in UNOPS custody. (a) Management of cash includes all actions necessary for the receipt, deposit, advance, investment and disbursement of cash, including the designation of banks and opening and closing of bank accounts; and (b) The Executive Director may delegate authority, as appropriate, to personnel for such cash management.”

3. Responsibilities for Investment Advice and Decisions

3.1. The Portfolios shall be managed in accordance with the UNOPS Financial Regulations and Rules and this document.

3.2. Decisions regarding the Portfolios shall be made in accordance with the arrangements set out below.



Executive Director (ED)

3.3. The Executive Director is responsible for taking key investment decisions based on recommendations of the IAC, such as approving the Risk Budget and approving changes to the SIP.

3.4. The Executive Director has the right (but not the obligation) to attend IAC meetings.

3.5. The Executive Director may delegate responsibilities to the Deputy Executive Director (Management and Policy).

Deputy Executive Director (Management and Policy)

3.6. The Deputy Executive Director (Management and Policy) has such responsibilities as delegated by the Executive Director.

UNOPS Chief Financial Officer (UNOPS CFO)

3.7. The UNOPS CFO ensures the implementation of investment decisions made by the Executive Director. As such, the UNOPS CFO or his/her delegate shall 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 the agreements with the Asset Manager(s) and the Custodian.

3.8. The UNOPS CFO is also responsible for accounting and maintaining books with regard to the assets in the various Portfolios and the asset management activities in accordance with the accounting standards and UNOPS Financial Regulations and Rules.

Treasury/Office of Investment Management

3.9. The Treasury/Office of Investment Management is responsible for the day-to-day management of the Portfolios, either overseeing the Asset Manager(s), or acting as an internal portfolio manager.

3.10. The Treasury/Office of Investment Management is responsible for day-to-day compliance of the Asset Manager(s) and Custodian with the SIP.

3.11. The Executive Director and/or UNOPS CFO may delegate to the UNOPS Treasury/Office of Investment Management any investment management activities.

Asset Manager(s)

3.12. The Asset Manager(s) is responsible for investing assets by selecting securities in line with the

asset allocation strategy set by the Executive Director.

3.13. The Asset Manager(s) shall update the UNOPS CFO on a regular basis as per the terms of its agreement. The UNOPS CFO shall be responsible for further reporting to the Executive Director and IAC.

3.14. The Executive Director may agree with one or more Asset Manager(s) that the Asset Manager(s) be designated as a fiduciary manager.

3.15. The agreement with the Asset Manager shall include the following provisions:

3.15.1. 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.

3.15.2. Requirements to promptly notify the UNOPS CFO of any breach of the Asset Manager’s internal processes, including investment limits and other constraints.

3.15.3. 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.

Custodian

3.16. The Custodian is responsible for the custody of the assets/securities in the Portfolios and provides regular reporting to the UNOPS CFO as per the terms of its agreement. The UNOPS CFO shall be responsible for further reporting to the Executive Director and IAC.

3.17. The Custodian may also be requested by UNOPS to provide regular independent performance and risk calculations of the Portfolios.

3.18. UNOPS may request from the Custodian an independent assessment of Risk and performance monitoring of the Asset Manager(s).

3.19. The Custodian may also be requested by UNOPS to provide investment accounting reports for the Portfolios held in its custody.

Investment Advisory Committee (IAC)

3.20. The responsibilities of the IAC are set out in the table below:

	Description	Minimum Frequency	Advisory body	Decision-making body/official	Other
a	Review SIP.	Following any material changes in UNOPS investment policy or every three years (whichever is sooner)	IAC and External Advisor(s)	Executive Director	N/A

	Description	Minimum Frequency	Advisory body	Decision-making body/official	Other
b	Monitor compliance of Portfolios and decisions with SIP. Ensure that there is documentary evidence showing that Portfolios and decisions are in compliance with SIP.	Annual	IAC	Executive Director	N/A
c	Review Risk Budget and risk limits	Annual	IAC and External Advisor(s)	Executive Director	N/A
d	Establish the high-level asset allocation strategy between Asset Classes and currencies. Review asset allocation strategy to ensure the risk and returns are within tolerances.	Annual	IAC, External Advisors and Asset Manager	Executive Director	N/A

	Description	Minimum Frequency	Advisory body	Decision-making body/official	Other
e	Review the implementation of the asset allocation strategy, ensuring that portfolios are in line with the Risk Budget, the approved portfolio risk profiles and currency allocations.	Annual	IAC, External Advisors and Asset Manager	Executive Director	N/A
f	Review Dynamic Asset Allocations and Rebalancing, within the limits outlined in the SIP and the annex relevant to each portfolio.	Annual	IAC (and, if deemed necessary by IAC and/or Executive Director, External Advisor(s))	Executive Director	N/A
g	Consider whether to delegate Dynamic Asset Allocation and/or Rebalancing to an Asset Manager within the boundaries of the relevant Asset Management Agreement.	As needed	IAC (and, if deemed necessary by IAC and/or Executive Director, External Advisor(s))	Executive Director	N/A

	Description	Minimum Frequency	Advisory body	Decision-making body/official	Other
h	Review valuation of assets and when needed request an independent review. (This is particularly relevant for unlisted securities/ alternative assets.)	At each IAC meeting	N/A	N/A	IAC to review and inform Executive Director of any concern(s)
i	Review the performance reports from the Custodian and Asset Manager(s), and highlight anything of note to the UNOPS CFO for further action.	At each IAC meeting	N/A	N/A	IAC to review and inform the UNOPS CFO of any concern(s)
j	Selection of Asset Manager(s).	As needed .	IAC and External Advisor. This includes verifying that the Asset Manager has the appropriate knowledge and experience	Executive Director	N/A

	Description	Minimum Frequency	Advisory body	Decision-making body/official	Other
k	Review of proposed Asset Management Agreements (AMAs) and/or proposed amendment(s).	As needed	IAC (and, if deemed necessary by IAC and/or Executive Director, External Advisor(s))	Executive Director	N/A
l	Assess performance of the Asset Manager on a three-year rolling Returns basis, after fees (including the Return vs appropriate Benchmarks).	Ongoing	IAC (and, if deemed necessary by IAC and/or Executive Director, External Advisor(s))	Executive Director	N/A
m	Monitor fees and costs with a view to ensure competitive pricing for Asset Management services.	As needed or annually (whichever is sooner)	N/A	N/A	IAC to review and inform Executive Director of any concern(s)
n	Selection of Custodian.	As needed.	IAC and External Advisor(s)	Executive Director	N/A
o	Review of Master Custody Agreements (MCAs) and/or proposed amendment(s).	As needed.	IAC and External Advisor(s)	Executive Director	N/A

3.21. The internal rules of the IAC are set out in Annex VII.

External advisors

3.22. 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. Ethical and Socially Responsible Investing

4.1. UNOPS shall strive, on a best efforts basis, to ensure that the investments of the Portfolios conform to the ethical standards of the United Nations, and do not expose UNOPS to reputational risk.

4.2. Socially Responsible Investing is an important ethical consideration in managing the UNOPS Portfolios. UNOPS has a responsibility to society as part of the international community and its commitment to social progress. UNOPS 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 (FI).

4.3. 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.

4.4. The Asset Manager(s) is required to be a signatory of the United Nations supported PRI.

4.5. The Custodian is required to be a signatory of either the PRI or the UNEP Finance Initiative.

4.6. 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 shall be covered in the Investment Guidelines of each portfolio as can be seen in the SIP Annexes, and shall be written into the Asset Management Agreements (AMA) with any Asset Manager.

Voting Policy

4.7. 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 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.

4.8. 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.

4.9. In an instance that a voting right is granted to a position held in any of the Portfolios, the appropriate response in line with the previous paragraphs shall be considered which may include a request to the manager to utilise internationally-recognised sustainable proxy voting guidelines.

5. 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:

5.1. Investment Parameters

- 5.1.1. 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.
- 5.1.2. Historical asset manager performance is not a guide to future performance.
- 5.1.3. Fees and costs should be managed and reduced where appropriate.

5.2. Investment Time Horizon

- 5.2.1. The time horizon is specific to each Portfolio and shall be in line with the Portfolio Objective as outlined in the Annexes to this document.

5.3. Investment Portfolio

- 5.3.1. The Strategic Asset Allocation (SAA) for each Portfolio shall be stated in the Annex relevant to that Portfolio.
- 5.3.2. Timing with respect to any investment or divestment from certain assets shall be a consideration taken into account in investment decisions.
- 5.3.3. UNOPS may decide to run active, passive or hybrid approaches to portfolio management.
- 5.3.4. Risks should only be taken when there is an appropriate expected Return, i.e. unrewarded Risks are to be avoided.
- 5.3.5. UNOPS shall seek to diversify its investments (across Asset Classes, strategies, geographies, currencies, financial instruments) to reduce Risk.

5.4. Liquidity

For the purpose of this document and associated annexes, "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.

6. Risk Management

6.1. Risk Tolerance

An asset allocation strategy for each portfolio is selected with input from the IAC and stated in the annex of this document relevant to each portfolio. The portfolios shall then be managed in accordance with that asset allocation strategy 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.

6.2. Risk Limits

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

6.2.2. Active Risk - 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 one standard deviation of the difference between the return of the actual total 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 shall be outlined from time to time in the portfolio investment guidelines.

6.2.3. 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.

6.2.4. Actual risk in each Portfolio shall 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.

6.2.5. 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 UNOPS CFO and the risk of the Portfolios shall be brought back within the established limit as soon as reasonably possible.

6.3. Asset Liability Management

Where appropriate, a regular asset liability management (ALM) 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 portfolio.

7. Securities Lending

Securities lending is allowed across all the portfolios within strictly defined parameters. See Annex VI for further details.

Annexes

- Annex I UNOPS Working Capital Portfolio
- Annex II UNOPS Operational Reserves Portfolio
- Annex III UNOPS Growth and Innovation Reserves Portfolio



- Annex IV UNOPS Post-Employment Benefits Liabilities Hedge Portfolio (formerly known as After-Service Health Insurance (ASHI) Portfolio)
 - Annex V UNOPS Treasury Cash Management Portfolio
 - Annex VI Securities Lending
 - Annex VII Internal Rules of the Investment Advisory Committee (IAC)
 - Annex VIII Glossary of Terms
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