

**OPERATIONAL INSTRUCTION REF. OI.ED.2018.02**

**STATEMENT OF INVESTMENT PRINCIPLES AND INVESTMENT COMMITTEE**

**TERMS OF REFERENCE**

**1. Authority**

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

**2. Purpose**

- 2.1. The purpose of this OI 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.

**3. Effective Date**

- 3.1. This OI shall become effective **immediately**.

**4. Consequential Changes**

- 4.1. Organizational Directive 45 - Statement of Investment Principles and Investment Committee Terms of Reference, of 4 July 2016, shall be abolished as of the effective date of this document.

[signature redacted]

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Grete Faremo  
Executive Director, UNOPS

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## 1. Glossary of terms

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

- i. **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.
- ii. **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.
- iii. **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%).
- iv. **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.
- v. **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.
- vi. **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).
- vii. **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
- viii. **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.
- ix. **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.
- x. **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.

- xi. **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 document and the FRR:
  - i. UNOPS Working Capital Portfolio as per Regulation 10.03 and 11.02 of the FRRs (hereinafter "Working Capital");
  - ii. UNOPS Reserves Portfolio as per Regulation 22.01 a) of the FRRs (hereinafter "Reserves");
  - iii. UNOPS After Service Healthcare Portfolio as per Rule 122.01 of the FRRs (hereinafter "Healthcare").
  - iv. UNOPS Treasury Cash Management Portfolio as per Regulation 22.01 of the FRRs
- 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. Policy Framework of UNOPS Investment Objectives and Investment Beliefs**

- 4.1. Since UNOPS took over the responsibility of the management of its Working Capital late 2016, the UNOPS Executive has implemented a balanced and risk controlled investment approach.

4.2. The main focus was on the development of a strict risk management framework which has been developed and refined over time taking the a number of fundamental policy elements into account which include:

- UNOPS supports the successful implementation of peace building, humanitarian and development projects for its partnership group which extends beyond the traditional group of donor or host UN-member countries and includes NGOs, foundations and private sector organizations
- This broader range of partners leads to advanced requirements for the effective and efficient use of resources, as well as for transparent monitoring and reporting
- For these partners, UNOPS acts as a trustee of the funds made available for these operations by government and non-government partners prior to their disbursement for project purposes creating a significant operational Working Capital. Giving the growing pipeline of projects, UNOPS' Working Capital is expected to grow significantly in the coming years
- In its trustee role, UNOPS needs to operate according to the basic rules of the *Prudent Person Principle* and act with utmost *Duty of Care* for both its donors and recipients.
- These *Prudent Person Principle* and *Duty of Care* requirements dictate the investment policies for the Working Capital to be very strict with a very low tolerance with respect to negative valuation (i.e. protection of nominal capital that includes high awareness also on the term risks ), low levels of volatility and defined target returns. It is however important for all stakeholders to appreciate that even within a strict risk framework, risk can never be fully eliminated from any investment activity. The low tolerance for risk implies that it **is hard to safeguard the real value of the capital.**

UNOPS has developed a strict risk framework for its “trustee-role” of its Working Capital. Investment risks are assessed on the basis of econometrical models and rely on historical data. They can provide a fair approximation of future risks but never provide assurance or guarantees for certain risk/reward performance.

This risk framework limits the invest universe for the funds to a very narrow group of instruments, debt-issuers and currencies. Whilst such approach fits well within the overall management approach, it can never “zero-out” all investment risk.

In order to further reduce risk and volatility, the decision was taken to revise the asset allocation for Working Capital in the course of 2017.

While acknowledging that this would lead to higher concentrations in US government bonds (Treasuries) and currency (US dollar), the UNOPS Executive supported by its external Investment Committee members felt that the resulting investment profile is best aligned with the UNOPS mandate and its trustee role for the Working Capital.

## **5. Investment Principles**

5.1. **Portfolios Objectives:** UNOPS portfolios as described in this document shall be managed in accordance with the following Objectives:

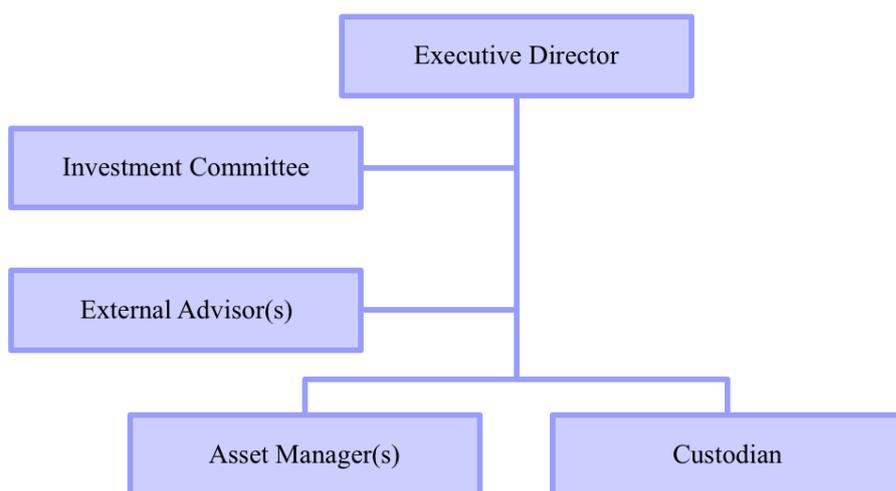
- i. Working Capital: Preservation of Capital in Nominal Terms over a 1-year rolling period is the Primary Objective.

- ii. In line with the statutory framework stated in Article 3 & 4, UNOPS will aim to invest funds entrusted to it in a cautious risk controlled manner.
  - iii. The investments shall fully reflect UNOPS Risk Budget and Risk Appetite set at strict levels, which can be amended from time to time by the Executive Director
  - iv. Reserves: Provide security and liquidity in adverse circumstances and support the long-term operations of UNOPS.
  - v. Healthcare: Provide for the after service health-care benefits of the employees of UNOPS by managing assets in relation to relevant liabilities.
  - vi. Treasury Cash Management: Preservation of Capital in Nominal Terms over a 1-year rolling period to provide liquidity in multiple currencies for UNOPS operations.
- 5.2. **Asset Allocation:** the allocation of UNOPS portfolios between Asset Classes, currencies or geographies shall comply with the following guiding principles:
- i. Preservation of capital in Nominal Terms over a one year rolling period is the Primary Objective of the Working Capital Portfolio; Preservation of capital in Real Terms is the Primary Objective of the Reserves Portfolio; Funding future liabilities is the Primary Objective of the Healthcare Portfolio.
  - ii. 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;
  - iii. The Return obtained in the portfolios is less important than capital preservation and liquidity considerations.
  - iv. Diversification (across Asset Classes, strategies, geographies, currencies, financial instruments) reduces Risk.
  - v. Risks should only be taken when there is an expected Return, i.e. unrewarded Risks is to be avoided.
  - vi. Fixed income is a core Asset Class for UNOPS given the mission and Objectives of the portfolios it is responsible for.
  - vii. 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.
- 5.3. **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:
- i. 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.
  - ii. Active Management can add value net of fees.
  - iii. Investing passively is an efficient way to get exposure to large liquid equity markets.
  - iv. Historical asset manager performance is not a guide to future performance.
  - v. Derivative instruments will only be used for hedging purposes and in order to mitigate the Risk of the portfolios.
  - vi. Fees and costs matter should be managed and reduced where appropriate.

vii. Sustainable responsible investing is an important ethical consideration in managing the UNOPS portfolios.

## 6. Governance Structure

6.1. **Governance structure:** UNOPS portfolios shall be managed pursuant to the FFRs, this document 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.

6.2. 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
Manager selection & AMA (Asset Management Agreement)	IC and External advisors	Executive Director	N/A	The IC should select and review asset managers, and propose AMAs to the Executive Director for approval
Investment reporting, Risk monitoring and investment compliance	N/A	N/A	IC	All investments will be formally monitored by the IC on a quarterly basis.
Selection of Custodian	IC and External advisors	Executive Director	N/A	The IC participates in the selection process of the Custodian and makes recommendation for appointment to the Executive Director for approval.
Valuations	N/A	N/A	IC	The IC will review the valuation of assets and when needed request an independent review.
Fees and costs	N/A	N/A	IC	The IC will monitor fees and costs at least once a year.

## **7. Custodian, asset manager and advisors' arrangement**

- 7.1. 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.
- 7.2. External advisor may be consulted on the choice of a Custodian or an Asset Manager and the terms and conditions of their corresponding agreements.
- 7.3. The IC shall investigate that the Asset Manager has the appropriate knowledge and experience for managing the fund's assets.
- 7.4. The Executive Director may request from the Custodian an independent assessment of Risk and performance monitoring of the Asset Manager.
- 7.5. The Agreement with the Asset Manager shall include the following provisions:
  - i. 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;
  - ii. Requirements to promptly notify the IC of any breach of their internal processes, including investment limits and other constraints;
  - iii. 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.
- 7.6. The performance of the Asset Manager shall be assessed on a three-year rolling Returns basis, after fees.
- 7.7. 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.

## **8. SIPs Compliance and review**

- 8.1. 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.
- 8.2. 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.
- 8.3. 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 document.

## 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 TASKS

- i. **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.
- ii. **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.
- iii. **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

- i. **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.

- ii. **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.
- iii. **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.
- iv. **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.
- v. **Review and compliance:** The IC shall document the investment process and ensures its compliance with this OD As stated in Section 7 of this document, it will review the SIPs and propose any changes to the Executive Director for approval.
- vi. **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.

## ANNEX II

### INVESTMENT MANAGEMENT OBJECTIVES AND GUIDELINES

#### UNITED STATES DOLLARS (“USD”) UNOPS Working Capital Portfolio (“Portfolio 1”)

##### **1. Benchmark**

The Investment Account Assets will be managed against the BofA Merrill Lynch U.S. Treasury Notes & Bonds, 0-1 Year index (the “Benchmark”).

##### **2. Objective**

The objective of the portfolio is to preserve nominal capital over a one-year rolling period. The objective of the portfolio management strategy will be to generate moderate excess returns over the Benchmark with a low level of volatility.

##### **3. Risk Limits**

- i. The overall market risk of the portfolio relative to the Benchmark will be controlled by a limit on potential drawdown versus the Benchmark. If at any time in the Client’s fiscal year, the return of the portfolio reaches a level of fifty (50) basis points below the return of the Benchmark, the Client will be consulted on whether or not to revert to a Benchmark replication strategy for an agreed period.
- ii. LGIM will maintain the portfolio duration within a range of plus or minus three (3) months around the duration of the Benchmark.

##### **4. Eligible Instruments**

###### **4.1. Government Securities**

Any USD denominated marketable bond, note or other obligation, issued or unconditionally guaranteed by a sovereign government, with an issuer rating of at least AA- or its equivalent.

###### **4.2. Government Agency, Other Official Entity and Multilateral Organization Securities (limited to 50% of Investment Account Assets)**

Any marketable bond, note or other obligation issued or unconditionally guaranteed by the agency or instrumentality of a sovereign government, any other official entity (such as regional authorities, municipalities and other entities established to serve a governmental purpose), or a multilateral organization, denominated in USD, and rated at least AA- or its equivalent, or in the event such instrument is not rated by any rating agency and it is senior unsecured debt, the issuer must be rated at least AA- or its equivalent.

###### **4.3. Exchange-Traded Futures**

USD denominated exchange-traded interest rate futures contracts based on eligible instruments specified in sub-sections 4(a) to 4(c) of these Investment Guidelines.

###### **4.4. Covered Bonds (limited to 20% of the Investment Account Assets)**

Any USD denominated marketable covered bond, provided that it is rated AAA, or its equivalent.

## **5. Additional Provisions**

- 5.1. The market value of tradable securities held at any time in the portfolio, determined on a settlement date basis, will not exceed the size of the Investment Account Assets. For the avoidance of doubt, the foregoing limitation on leverage shall not apply in the event of operational issues, including but not limited to settlement failure, which are not directly related to investment decisions, but may arise in the ordinary course of business.
- 5.2. The minimum credit rating eligibility threshold stipulated for each eligible instrument or issuer, as applicable, in Section 4 of these Investment Guidelines shall apply at the time of the purchase of the instrument by LGIM.
  - i. If, after the purchase, any instrument or issuer, as applicable, is downgraded below the applicable minimum credit rating, LGIM will promptly notify the Client and await further instructions from the Client.
  - ii. If, after the purchase, any issuer who is part of the Benchmark is downgraded below the applicable minimum credit rating, LGIM will promptly notify the Client and seek confirmation as to a waiver by the Client of the minimum credit rating in respect of such issuer or indication of a new benchmark or any other action in the Client's discretion.

In the event that the Client, as part of its instructions, directs LGIM to dispose of any instrument pursuant to items (i) or (ii) above, LGIM shall effect such disposition as soon as reasonably practicable, taking into account prevailing market conditions as well as the remaining potential risks, but shall in no event be liable to the Client for any losses that the Client might incur in connection with the disposition of such instrument.

## **6. Liquidity**

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. For the purposes of this Agreement, a “business day” shall mean any day, Eastern Standard Time (EST), on which the Federal Reserve Bank of New York or the U.S. government securities markets are open for the conduct of official business.

## ANNEX III

### INVESTMENT MANAGEMENT OBJECTIVES AND GUIDELINES

#### UNITED STATES DOLLARS (“USD”) UNOPS Reserves (“Portfolio 2”)

##### **1. Benchmark**

The Investment Account Assets will be managed against a benchmark of US CPI + 2.00% (the “Benchmark”).

##### **2. Objective**

The objective of the portfolio is to provide security and liquidity in adverse circumstances and support the long term operations of UNOPS including funding investments in UNOPS Social Impact Investing Initiative. The objective of the portfolio is to preserve wealth with the aim of generating stable real returns (versus US CPI-U inflation) over the long-term. The strategy targets modest excess returns at low risk and medium liquidity by investing into a diversified portfolio formed predominantly using investment grade fixed-income (incl. inflation-linked fixed income) instruments.

##### **3. Eligible Instruments**

- i. Treasury Inflation Protected Government Securities
- ii. USD Investment Grade Corporate Bonds (limited to 30% of the Investment Account Assets with an issuer rating of Investment Grade (excluding BBB))
- iii. EUR Investment Grade Corporate Bonds (limited to 15% of Investment Account Assets with an issuer rating of Investment Grade (excluding BBB))
- iv. USD denominated Emerging Market Debt (limited to 7.5% of the Investment Account Assets)
- v. High Yield Debt (Limited to 10% of the Investment Account Assets)
- vi. Developed Equities (limited to 10% of the Investment Account Assets)

##### **4. Additional Provisions**

- 4.1. The market value of tradable securities held at any time in the portfolio, determined on a settlement date basis, will not exceed the size of the Investment Account Assets. For the avoidance of doubt, the foregoing limitation on leverage shall not apply in the event of operational issues, including but not limited to settlement failure, which are not directly related to investment decisions, but may arise in the ordinary course of business.
- 4.2. The minimum credit rating eligibility threshold stipulated for each eligible instrument or issuer, as applicable, in Section 4 of these Investment Guidelines shall apply at the time of the purchase of the instrument by LGIM.

- i. If, after the purchase, any instrument or issuer, as applicable, is downgraded below the applicable minimum credit rating, LGIM will promptly notify the Client and await further instructions from the Client.
- ii. If, after the purchase, any issuer who is part of the Benchmark is downgraded below the applicable minimum credit rating, LGIM will promptly notify the Client and seek confirmation as to a waiver by the Client of the minimum credit rating in respect of such issuer or indication of a new benchmark or any other action in the Client's discretion.

In the event that the Client, as part of its instructions, directs LGIM to dispose of any instrument pursuant to items (i) or (ii) above, LGIM shall effect such disposition as soon as reasonably practicable, taking into account prevailing market conditions as well as the remaining potential risks, but shall in no event be liable to the Client for any losses that the Client might incur in connection with the disposition of such instrument.

## **5. Liquidity**

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. For the purposes of this Agreement, a "business day" shall mean any day, Eastern Standard Time (EST), on which the Federal Reserve Bank of New York or the U.S. government securities markets are open for the conduct of official business.

## ANNEX IV

### INVESTMENT MANAGEMENT OBJECTIVES AND GUIDELINES

#### UNITED STATES DOLLARS (“USD”) UNOPS Treasury Cash Management Portfolio (“Portfolio 4”)

##### **1. Benchmark**

The Investment Account Assets will be managed against the 7 Day LIBID index (the “Benchmark”).

##### **2. Objective**

The objective of the portfolio is to provide liquidity for UNOPS operational field activity across all currencies, whilst preserving nominal capital over a one-year rolling period. The objective of the portfolio management strategy will be to ensure sufficient funding in all locations for daily operations, whilst mitigate credit risk faced by UNOPS whilst ensuring that a rate of return in line with the cash market is generated

##### **3. Allowable Investments**

###### 3.1. Interest Types Permitted:

- Coupon (both fixed and floating)
- Zero Coupon
- Discounted

###### 3.2. Borrower Types Permitted:

- Sovereign, Government Guaranteed
- Supranational
- Agency
- Bank
- Financial Institution
- Corporates (Minimum shareholders equity size of \$5billion)

##### **4. Allowable Investment Instruments**

- Time Deposit
- Certificates of Deposit
- Commercial Paper
- Eurodollar Certificates of Deposit
- Money Market Funds

- Repurchase Agreement

## **5. Prohibited Investment Instruments**

- Inverse Floaters, Yield Curve Notes, Range Floaters, Futures Contracts, Leveraged (or Deleveraged) Floating Rate Securities, Dual Index Floating Rate Securities, and Cost of Funds Index Based Floating Rate Securities
- Asset-Backed Securities
- Mortgage Backed Securities
- Covered Bonds
- Preferred Bonds
- Junior or Subordinated Bonds
- Equity, Equity linked or Equity derivative products.

## **6. Maturity Limits**

- For purposes of this guideline, short term maturity refers to securities maturing in less than 365 days. Medium term refers to securities with maturities from one year to 3 years and 2 months. Long term refers to securities with maturities from 3 years 2 months to 5 years.
- Maturity limit for UNOPS Treasury Cash Management Portfolio (“Portfolio 4”) is 1 Year from the purchase date
- On an exceptional basis until further amended, cash holdings in currencies that are currently negative yielding (where UNOPS must maintain the currency exposure) can be invested up to 2 years in Investment Grade issued debt instruments and bank obligations as per the limits of this guideline in order to avoid negative yields

## **7. Issuer Limits and Credit Ratings**

- For purposes of this guideline, credit ratings are prioritized in the following order: Standard & Poor’s, Moody’s, Fitch
- Treasury specific limits are reviewed regularly and approved by UNOPS CFO and Comptroller
- Credit Ratings minimum limits are stated as of trade date
- In the event of a credit downgrade below minimum limits over the life of an investment, the Treasurer shall assess the investment with immediate notice to the CFO and Comptroller for approval of either retention or liquidation. The Investment Committee shall be made aware of any investments with a perceived elevated risk profile at the next scheduled meeting and be provided with updates including risk analysis at meetings thereafter until the investment is sold/matured.
- In the event of a breach in maximum thresholds or counterparty exposure limits over the life of an investment, the Treasurer shall assess the investment with immediate notice to the CFO and Comptroller for approval of either retention or liquidation. The Investment Committee shall be made aware of any investments with a perceived

elevated risk profile at the next scheduled meeting and be provided with updates including risk analysis at meetings thereafter until the investment is sold/matured

**8. Limits for debt instruments issued by sovereign, government guaranteed, supranational and agency issuers**

- The minimum allowable for medium/long term maturities are long term ratings AA-, Aa3, AA- and allowable for short term maturities A-1, P-1, F-1 short term ratings as of trade date. In the event of a split rating, Standard and Poor's, Moody's shall take precedence
- Limit of 10% in any single issuer as of trade date
- Exception is debt instruments rated AA+, Aaa, AAA and repurchase agreement transactions collateralized with US Government and US Agency debt which may comprise up to 100%.

**9. Bank Deposit and Bank Short Term Debt Instrument Limits (Time Deposits, Certificates of Deposit, and Commercial Paper)**

- Subject to an approved list of banking counterparties as updated from time to time by UNOPS Treasury
- Exposure to any single counterparty rated P2/A2/F2 or above limited to 10% of the value of the Treasury Cash Management Portfolio outstanding at any given time.