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REFERENCE: AF-C

29 April 1948

Dear Mr. Eccles,

It is probable that Mr. Rounds has already written you with regard to the meetings of the Investments Committee and its conclusions.

However, following the exchange of letters on the legal position of the membership of the Investments Committee, we are forwarding herewith a copy of the report which has been agreed upon by Mr. Rueff and Mr. Rooth, and by Mr. Rounds on your behalf. Would you be so kind as to indicate your agreement with the conclusions of the report. It would be appreciated if you could do so at your earliest convenience, as the report cannot be accepted as final until your confirmation has been recorded.

Very truly yours,

Mary Smieton

Miss Mary G. Smieton
Acting Assistant Secretary-General
Administrative and Financial Services

Attachment

Mr. Marriner S. Eccles
Chairman pro tem of the Board of Governors
Federal Reserve System of the
United States of America
Washington 25, D. C.

UNITED NATIONS JOINT STAFF PENSION SCHEME

REPORT OF INVESTMENTS COMMITTEE

TO THE SECRETARY GENERAL:

Following discussions with members of the staff of the United Nations, and with the Staff Benefit Committee, the Investments Committee has considered how it can best be of service to your organization in respect of the investment of the funds of the Pension Scheme.

It has seemed advisable to the Investments Committee to consider first of all the function it could execute within your organization and in what way it could render most efficient and helpful service to you. Since the membership of the Committee is widely scattered, it is apparent that frequent meetings will not be possible, nor will consultations by wire or otherwise be practicable for the day to day consideration of such problems as might come up in respect of the investment of the funds. It has seemed to your Committee therefore that its greatest usefulness might be realized if it were to outline a general program for the investment of the funds and formulate a procedure under which those investments might be promptly made as funds are available, without the necessity of having the Committee pass upon each separate investment as a condition precedent to its purchase. If this program were to be followed, it would be necessary to have a clearly defined procedure. It is the purpose of this report to outline such a procedure.

As a necessary preliminary the Committee is submitting its conclusions in respect of certain major questions of policy relative to the investment of a fund of this kind.

Need for Liquidity - Maturity Program

The situation presented is that of a growing fund presently holding some $3,000,000 of assets, with future contributions of funds for investment to be made currently by the members and the employing agencies estimated to amount to not less that $1,750,000 annually, not including income upon the invested funds. Disbursements for benefits will for many years be relatively small, so that barring only the possibility of a substantial reduction in staff, the Fund should be steadily increasing in size for many years to come.

In these circumstances, the Committee believes there is no need at this time to make any material sacrifice of income for the sake of maintaining a liquid position with any part of the funds, since every reasonable need for liquidity will be more than met by the substantial monthly accretions to the Fund. In unusual circumstances such as would be presented by a substantial reduction in staff, it is our understanding that the Rules and Regulations (Section 17) provide a means of supplementing the Fund according to its needs. Also, the Committee does not believe that as a matter of investment policy it is desirable under present conditions, or any reasonably normal conditions, to maintain a short position in order to take advantage of possible changes in interest rates. In the opinion of the Committee the loss of income that may result from following this course is too large a price to pay for the possible privilege of reinvesting within the reasonably near future at higher interest rates. It is believed that better results will be achieved by investing all funds as promptly as possible after receipt in obligations of the type selected as suitable for the Fund.

Nevertheless the Committee recognizes that the investment return upon high-grade investments has during recent years been relatively low as compared with rates prevailing for many years previous, and also that there has been a tendency during the past year for rates to increase somewhat, and that it is possible that this tendency may continue. For these reasons the Committee would recommend, for the time being at least, that all investments be made in obligations of as short a term as may be practicable without material sacrifice of income; that is, that investments should be made in sufficiently long maturities to produce a reasonable yield, and no longer. The following of this policy would mean that most investments at this time will be made in securities having maturities of approximately from 15 to 20 years.

It would not be necessary to rule out investments of a shorter maturity if they can be found to produce a satisfactory yield, nor would it be felt necessary arbitrarily to limit investments to 20 years' maturity. The Committee would recommend a reasonable diversification of maturities approximately within the 15-20 year range.

Liability in Various Currencies

As we understand the situation, the present liabilities of the Fund are such as to require payment almost entirely in United States dollars. The Rules provide that at retirement, any participant may specify the currency in which his pension shall be payable, and that upon such election, payment will be made in a currency other than United States dollars at the current rate of exchange. That rule appears to present no exchange risk to the Fund.

The Rules also provide that

> "Contributions and benefits shall be calculated in the currency in which the pensionable remuneration is fixed by the terms of employment." (Section 30)

It is our understanding, however, that there are presently only a nominal number of members with "terms of employment" specifying currencies other than the United States dollar.

While obviously it will be desirable to make investments so far as possible in currencies consistent with the liabilities assumed, there appears to be no present need of considering investment in currencies other than the United States dollar, and until such time as substantial liabilities in other currencies may be created, it would seem appropriate that substantially all of the investments should be in United States dollar obligations.

Types of Investment Available

There are available for consideration a wide variety of investments of which the following is a partial list:

Debt obligations of

United States Government
Other governments
Subdivisions of government such as state and municipal obligations
Corporations such as railroad, public utility and industrial concerns

Real estate mortgages

Preferred stocks

Common stocks

Many retirement systems invest in securities of all of these classes, and under certain conditions carefully selected securities of these categories will constitute suitable investments for a fund of this type. It is the Committee's conclusion, however, that investments for this Fund should not be made in the last three categories, at least at this time.

The Committee believes that under present conditions, investments of this Fund should be limited to debt obligations of the highest quality with reasonable diversity as to location, maturity and business of obligor.

Rate of Return

The Scheme has been based upon the expectation that a net average return of 2 1/2% would be realized. This objective is a reasonable one and will permit of the investment of the funds in obligations of the highest quality, provided it is not considered necessary to invest any substantial proportion of the Fund in short-term obligations, that is, obligations with maturities of less than 5 to 10 years.

Recommended Investment Plan

The Fund is presently invested entirely in United States Government obligations, about $300,000 being in Series "F" United States Treasury Savings Bonds and the balance in United States Treasury Certificates of Indebtedness maturing within one year.

The Series "F" Savings Bonds are an accumulation type of bond sold at a fixed price of $74 and having a maturity value in 12 years of $100, which represents an average yield of 2.53%. The one-year Certificates of Indebtedness yield various rates from 7/8% to 1 1/8%, averaging about 1%.

Proceeding upon the above assumptions, the Committee would recommend that the investment program for the immediate future, that is, say, for a period of one year, be as follows:

(1) The Committee would recommend that the Series "F" Bonds be retained and that such bonds be added to from time to time to the extent that Treasury regulations will permit. (At present the maximum investment permitted is $100,000 per annum for any one fund.)

(2) It is recommended that the Certificates of Indebtedness be sold and that in their place there be purchased a proportion of long-term Treasury obligations to yield as close to 2 1/2% as can

be obtained, with some reasonable diversity of maturity. The longest maturity of this type of bond presently is 24 years; bonds having a maturity of 15 to 18 years can be bought for a yield of about 2.30%.

(3) It is recommended that the balance of the Fund be invested in high grade debt obligations of American corporations rated not less than "AA" or its equivalent by at least two recognized rating agencies. Such bonds can be bought at the present time at yields ranging from about 2.60% to around 3%. Maturities should be kept as short as possible, yield considered, and the proportion of the total Fund to be invested in such bonds should be determined so as to produce an average yield upon the entire Fund of about 2 1/2%. Under present conditions such a program would permit of investing from 50% to 70% of the total fund in U. S. Government obligations. In selecting these investments, due regard should be had for diversification of industry and maturity, and it is recommended that not more than 2% of the total Fund shall be invested in the obligations of any one obligor.

(4) New monies received during the next twelve months may also be invested in accord with the above program.

(5) It is recommended that statements of new investments made and of total investments held be submitted to each member of the Committee either monthly or quarterly.

We believe that in accordance with the principles as outlined, investments may be made upon the specific recommendations of your financial advisors with satisfactory results and considerably more promptly than would be possible if individual investments were to be passed upon by this Committee.

The suggestion was made and accepted by the Staff Benefit Committee to have a list of all proposed new purchases of securities submitted to a representative resident in New York of the member of the Committee residing in the United States, in order that he might indicate whether or not, in his opinion, the proposed investments were consistent with the general recommendations of the Investments Committee. The Committee would be agreeable to this procedure, if desired.

Other Comments

In the course of our discussions, the question was raised concerning the investment of the Staff Provident Fund as distinguished from the Pension Fund. While this Fund is in course of liquidation, it is our understanding that it is expected that a substantial part of the Fund - one-half or more - will be transferred to the Pension Fund, and since the two Funds are already being considered for practical purposes as a single fund and the Pension Fund would be prepared to take over and the Provident Fund would be prepared to sell at cost any investments held in the Provident Fund, we are agreed with your Staff Benefit Committee that there is no need to consider any different program for the investment of the Staff Provident Fund than would be followed for the Pension Fund. We understand that the needs for disbursements from the Staff Provident Fund on account of separations from service will not in any case exceed the monthly accretions to the Pension Fund.

Respectfully submitted,

INVESTMENTS COMMITTEE

Jacques Rueff

Ivar Rooth
Members of Committee

Leslie R. Rounds

Summary of United Nations Investments Committee Report

April 30, 1948

The U. N. Pension Fund now holds about $3 million of assets and will be receiving contributions at a rate of around $2 million a year. The present liabilities of the Fund are such as to require the eventual payments to be made almost entirely in U. S. dollars, so that there appears to be no present need of considering investment in other currencies. Disbursements for benefits will for many years be relatively small, so that there is no need of maintaining any investments in short-term securities.

The Committee felt that the fund should be invested in U. S. Government securities or high-grade corporate obligations. While there is no need of making short-term investments for purposes of liquidity, the Committee recognized that money rates have been very low and that the rising tendency of the past year may continue, and for this reason the Committee recommended for the present that all investments be made in obligations of "as short a term as may be practicable without material sacrifice on income." The Committee felt that this called for making most of the investments at this time in securities having maturities of 15-20 years.

The fund now holds $300,000 of Series F Treasury Savings Bonds, and the Committee recommended that this holding be kept and that it be increased as Treasury regulations permit. For the rest of the fund, the Committee recommended that it be divided between U. S. Treasury bonds (on which a yield of about 2.30 per cent can be obtained on 15-18 year maturities) and American corporate bonds rated AAA or AA (on which the yield would be about 2.60 to 3 per cent). The Committee recommended that the fund be divided between these two classes of obligations so as to produce an average yield of about 2-1/2 per cent on the entire fund. Not more than 2 per cent of the fund would be invested in bonds of any one company. This plan would apply to the funds now on hand and also to all funds coming in during the next 12 months.

It was agreed that the Committee itself need not meet more than about once a year. Within the general policy laid down by the Committee, the Staff Benefit Committee of the U. N. Secretariat would make the individual day-to-day investment decisions. Each proposed new purchase would be submitted to "a representative resident in New York of the member of the Committee residing in the United States." Statements of new investments made and of total investments held would be submitted to each member of the Committee monthly or quarterly.

May 4, 1948.

Miss Mary G. Smieton, Acting Assistant
Secretary-General,
Administrative and Financial Services,
United Nations,
Lake Success, New York.

Reference: AF-C

Dear Miss Smieton:

I have your letter of April 29 enclosing a copy of the report prepared by the United Nations Investments Committee and requesting me to indicate my agreement with its conclusions.

I am happy to say that I fully concur with all of the recommendations contained in the report.

Very truly yours,

M. S. Eccles.

JBK:mla

May 26, 1948.

Mr. L. R. Rounds,
33 Liberty Street,
New York 45, New York.

Dear Mr. Rounds:

This is a belated acknowledgment of your letter of April 27, which I very much appreciate. As you know I have been absent in the West or this would have had an earlier reply.

I feel that you have done a most excellent job in persuading the Investments Committee of the United Nations Pension Scheme to adopt your ideas on the investment of retirement funds. I am in entire agreement with the recommendations, and incidentally I wish that our Retirement Investment Committee would adopt similar principles. I am certainly glad that you could devote your time and attention to this matter.

Sincerely yours,

M. S. Eccles.

ET:dls