



## Finance Committee

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### **Investment options regarding the Endowment Fund of the International Seabed Authority**

#### **Report of the Secretary-General**

#### **I. Introduction**

1. The present report has been prepared in response to the request of the Finance Committee at the twenty-first session of the International Seabed Authority for a report on the investment options regarding the Authority's Endowment Fund (see [ISBA/21/A/10](#) and [ISBA/21/C/18](#)).

#### **II. Current investment status of the Endowment Fund**

2. The capital of the Endowment Fund, in the amount of \$3,465,815, is currently invested in cash and short-term deposits in United States dollars with Scotia Investments Jamaica, in a financial instrument known as a repurchase agreement, at an annual interest rate of 0.9 per cent, for a one-year tenor, with effect from 11 September 2015. The expected gross interest earnings on this investment are in the amount of \$31,920. If the Authority decides to renew the investment with Scotia Investments Jamaica upon maturity on 10 September 2016 for another year, the interest rate offered at that time will be 0.75 per cent per year. The repurchase agreement offered by Scotia Investments Jamaica is for a maximum tenor of 365 days.

3. The investment of the capital of the Endowment Fund began in 2006 with JPMorgan Chase Bank. That investment was transferred to Scotia Investments Jamaica in September 2012, pursuant to paragraph 10 of document [ISBA/18/A/4-ISBA/18/C/12](#).

4. Table 1 shows the annual interest earnings on the capital of the Endowment Fund from 2006 to 31 May 2016.



Table 1  
**Analysis of annual interest earnings on the capital of the Endowment Fund from 2006 to 31 May 2016**

(United States dollars)

<i>Year</i>	<i>Investment amount</i>	<i>Annual earned</i>	<i>Average annual interest rate (percentage)</i>
2006	2 631 803	49 826	1.89
2007	2 631 803	141 783	5.29
2008	2 689 617	106 954	3.82
2009	3 216 336	44 007	1.32
2010	3 254 538	44 018	1.34
2011	3 367 038	4 961	0.15
2012	3 392 038	26 815	0.79
2013	3 407 038	63 903	1.88
2014	3 455 538	33 812	0.98
2015	3 456 815	28 861	0.83
2016	3 456 815	13 233	0.38
<b>Average annual rate</b>	<b>3 179 762</b>	<b>50 743</b>	<b>1.60</b>

5. The investment amount is the accumulated capital amount. The amount of \$13,233 shown in table 1 as interest earned for 2016 is the figure as at 31 May 2016, which, if prorated for 2016 as a whole at the same interest rate, would yield the amount of \$31,759, thus representing an average annual interest rate of about 1 per cent. The status of the Endowment Fund as at 31 May 2016 is set out in annex I to the present report.

### **III. Consultations with the United Nations Joint Staff Pension Fund, United Nations Federal Credit Union and United Nations Treasury**

6. The secretariat has consulted the United Nations Joint Staff Pension Fund, the United Nations Federal Credit Union and the United Nations Treasury regarding investment options. The outcome of the discussions is detailed below.

#### **A. United Nations Joint Staff Pension Funds**

7. On the basis of the information provided to the Authority, the current investment portfolio of the United Nations Joint Staff Pension Fund may not meet the needs of the Authority, as the products in its current investment portfolio comprise the following:

- (a) Global equities, which include public equity comprising:
  - (i) Core equities (minimum volatility equity and green equity) strategies;

- (ii) Alternative strategies, which include private equity, commodities and risk parity strategies;
- (b) Real assets, which include real estate, infrastructure and timberland;
- (c) Global fixed income;
- (d) Cash and short-term investment option.

8. The cash and short-term investment option is the only investment option listed above that is practical and relevant to the needs of the Authority. The annual interest rate being offered on the market, according to United Nations Joint Staff Pension Fund representatives, may not be more than 0.08 per cent for the amount of \$3,465,815, which is the current capital amount of the Endowment Fund. Such an interest rate cannot be considered attractive, given that it is significantly lower than the current earnings of 0.9 per cent on cash and short-term investments with Scotia Investments Jamaica.

## **B. United Nations Federal Credit Union**

9. According to representatives of the United Nations Federal Credit Union, the three options listed below can be further explored.

### **1. United Nations Federal Credit Union share certificates**

10. United Nations Federal Credit Union share certificates are money market cash and cash equivalent instruments. Credit Union representatives noted that such certificates also offered the possibility of creating a “ladder” of time deposits, with staggered maturity dates up to five years, which could subsequently be renewed. That would create annual maturities providing the opportunity to regularly review interest rates. The current Credit Union share certificate rates are as follow:

1 year	0.75 per cent per year
2 years	1.25 per cent per year
3 years	1.59 per cent per year
5 years	1.73 per cent per year

### **2. Fixed-rate insurance contracts of a Bermuda-based insurance company**

11. A Bermuda-based insurance company offers an insurance contract with a term of five years and providing a fixed return. According to United Nations Federal Credit Union representatives, such a contract will generally result in a higher interest rate, in the light of the five-year term of the contract, and offers the possibility of withdrawing up to 10 per cent of the contract amount without incurring a prepayment penalty. The Bermuda insurance contract fixed-interest rate indications are as follows:

1 year	0.50 per cent per year
2 years	1.50 per cent per year
3 years	2.00 per cent per year
5 years	2.20 per cent per year

### 3. Corporate bonds that are regularly traded

12. The detailed table in annex 2 to the present report contains more information on these instruments.

### C. United Nations Treasury

13. The United Nations Secretariat centrally invests funds on behalf of Headquarters, offices away from Headquarters, regional economic commissions, peacekeeping missions and trust funds. More than 350 funds are combined in an internally managed cash pool denominated in United States dollars and investments in fixed-income securities, according to United Nations Investment Management Guidelines. Pooling the funds has a positive effect on overall investment performance and risk, as a result of economies of scale and the ability to spread yield curve exposures across a range of maturities while also providing for daily liquidity requirements for all pool participants. Table 2 and the figure show the pool balances as at 14 April 2016 and the pool investment performance from 1 January 2010 to 14 April 2016.

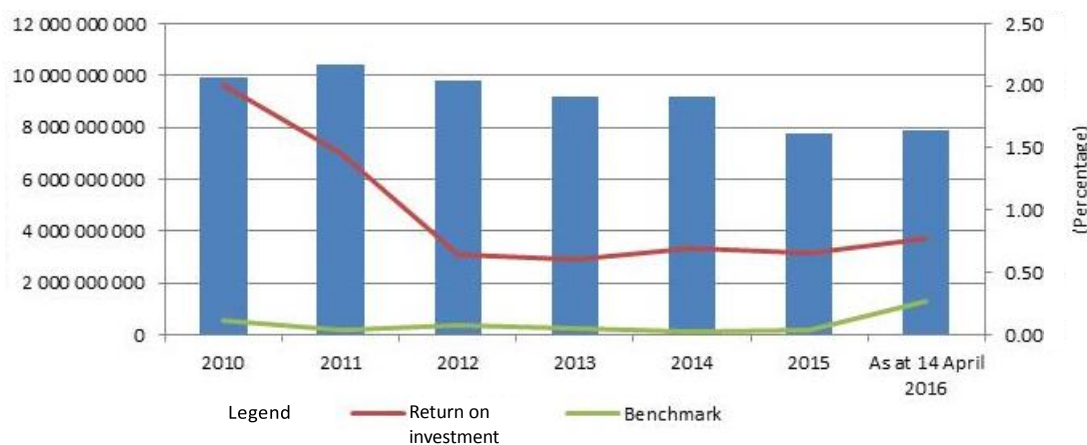
Table 2  
**Pool balances as at 14 April 2016**

(United States dollars)

	<i>Average balance</i>	<i>Income</i>	<i>Return on investment (Percentage)</i>	<i>Benchmark (Percentage)</i>
2010	9 937 663 265	199 259 720	2.01	0.12
2011	10 398 705 655	150 509 428	1.46	0.04
2012	9 800 718 785	64 184 880	0.64	0.08
2013	9 195 059 589	57 050 541	0.61	0.05
2014	9 186 626 535	62 510 832	0.70	0.02
2015	7 781 977 542	51 944 235	0.66	0.04
As at 14 April 2016	7 860 099 957	17 703 012	0.77	0.27

Figure  
**Cash pool investment performance from 1 January 2010 to 14 April 2016**

(United States dollars)



## IV. Recommendations

14. The Finance Committee is invited to take note of the investment options presented by the United Nations Federal Credit Union and the United Nations Treasury, and of the current investment of the capital of the Endowment Fund in cash and short-term deposits in United States dollars at Scotia Investments Jamaica as summarized below:

(a) **United Nations Federal Credit Union:**

- (i) The United Nations Federal Credit Union share certificate;
- (ii) Fixed-rate insurance contracts of a Bermuda-based insurance company;
- (iii) Corporate bonds that are traded in the usual manner (see annex II);

(b) **United Nations Treasury:** the cash pool denominated in United States dollars and investment in fixed-income securities that are internally managed by the United Nations Secretariat;

(c) **Scotia Investment Jamaica Limited:** investment of the capital of the Endowment Fund in cash and short-term deposits in United States dollars at an annual interest rate of 0.9 per cent for the first term of one year, with effect from 11 September 2015 and reinvestment of the funds at an annual interest rate of 0.75 per cent for another one year upon maturity of the current investment in September 2016.

15. The Finance Committee is invited to note that, of the options listed above, option (b), the cash pool denominated in United States dollars that is internally managed by the United Nations Secretariat, is the preferred option.

16. The Finance Committee is also invited to propose further action.

## Annex I

## Status of the Endowment Fund as at 31 May 2016

(United States dollars)

*Capital*

<b>Initial capital as 18 August 2006</b>	<b>2 631 803</b>
United Kingdom of Great Britain and Northern Ireland, contribution, 16 May 2008	29 800
Mexico, contribution, 6 October 2008	2 500
Spain, contribution, 5 November 2008	25 514
Norway, contribution, 25 August 2009	250 000
Germany application fee and interest as at 25 September 2009	276 719
United Kingdom contribution, 22 March 2010	15 253
<b>Interest not spent as at 31 December 2009</b>	<b>16 535</b>
<b>Interest not spent as at 31 December 2010</b>	<b>6 414</b>
Nigeria, contribution, 22 June 2011	10 000
Mexico, contribution, 7 September 2011	2 500
Japan, contribution, 15 September 2011	100 000
United Kingdom, contribution, 17 January 2012	20 000
Mexico, contribution, 8 November 2012	5 000
United Kingdom, contribution, 18 July 2013	10 000
Mexico, contribution, 10 September 2013	5 000
United Kingdom contribution, 24 April 2014	10 000
Republic of Korea, contribution, 3 July 2014	30 000
Mexico, contribution, 4 September 2014	7 500
Tonga, contribution, 18 December 2014	1 000
Institut français de recherche pour l'exploitation de la mer, contribution, 28 October 2015	2 777
Mexico, contribution, 6 November 2015	7 500
<b>Total</b>	<b>3 465 815</b>
<b>Interest earned</b>	
2006	49 826
2007	125 248
2008	100 540
2009	44 007
2010	44 018
2011	4 961
2012	26 815
2013	63 903
2014	33 812

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<i>Capital</i>	
2015	28 861
2016	13 233
<b>Total</b>	<b>535 224</b>
<b>Expenditures</b>	
Contributions made in 2008	(50 000)
Contributions made in 2009	(125 074)
Contributions made in 2010	(100 451)
Contributions made in 2011	(75 000)
Bank charges	(447)
Contributions made in 2012	(18 000)
Contributions made in 2013	(45 000)
Contributions made in 2014	(51 677)
Contributions made in 2015	(39 880)
Contributions made in 2016	(15 500)
<b>Total</b>	<b>(521 028)</b>
<b>Available funds (total interest earned to date less total expenditures to date)</b>	<b>14 196</b>
<b>Initial capital plus interest, less expenditures as at 31 May 2016</b>	<b>3 480 011</b>

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## Annex II

## Corporate bonds as at 18 May 2016

<i>Issued by</i>	<i>Country of incorporation</i>	<i>Moody's rating</i>	<i>S&amp;P rating</i>	<i>Coupon</i>	<i>Maturity</i>	<i>Category</i>	<i>Quantity</i>	<i>Offer price</i>	<i>Offer yield to maturity</i>
GE Capital Internotes	United States of America	A1	AA+	5.25	15 May 2018	Financial	60	108.815	0.81
Petro-Canada	–	Baa1	A-	6.05	15 May 2018	Industrial	250	108.204	1.863
Comerica	United States	A3	BBB+	2.125	23 May 2019	Financial	188	101.615	1.577
Halliburton	United States	A2	A-	6.15	15 September 2019	Industrial	273	114.402	1.694
CNOOC Finance (2015) Australia	–	Aa3	A+	2.625	5 May 2020	Industrial	1 000	101.203	2.307
National Rural Utilities Cooperative Finance Corporation	United States	A2	A	3.8	15 June 2020	Financial	10	108.62	1.613
HSBC USA	United States	A2	A	2.75	7 August 2020	Financial	975	102.952	2.019
TransCanada	Canada	A3	A-	3.8	1 October 2020	Financial	81	107.124	2.09
National Rural Utilities Cooperative Finance Corporation	United States	A2	A	4	15 November 2020	Financial	10	109.934	1.7
Halliburton	United States	A2	A-	8.75	15 February 2021	Industrial	191	128.07	2.458
HSBC Holdings	–	A1	A	5.1	5 April 2021	Financial	216	112.347	2.41