



INTERNAL AUDIT DIVISION

REPORT 2023/064

Audit of management of real assets in the Office of Investment Management of the United Nations Joint Staff Pension Fund

**There is need to incorporate lessons learned
and risk management into the real assets
investment strategy, establish criteria for
classifying investments, and rationalize the
scope of advisory services**

14 December 2023

Assignment No. AS2022-801-02

Audit of management of real assets in the Office of Investment Management of the United Nations Joint Staff Pension Fund

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of management of real assets in the Office of Investment Management of the United Nations Joint Staff Pension Fund. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the management of real assets in OIM. The audit covered the period from January 2019 to September 2023 and included a review of risk areas relating to real assets which included: (i) governance and policy framework; (ii) investment strategy and execution; and (iii) performance measurement and reporting.

The audit indicated the need for OIM to incorporate lessons learned and risk management into the real assets investment strategy, establish criteria for classifying investments, and rationalize the scope of advisory services.

OIOS made four recommendations. To address the issues identified in the audit, OIM needed to:

- Conduct an in-depth review of the real assets investment strategy and its historical execution to update the strategy based on lessons learned, and implement measures to mitigate major risks that may prevent the achievement of the target allocation and return objective for the portfolio;
- Develop a set of criteria or definitions for classifying real assets investments into proper risk categories or strategies;
- Ensure that only the required services are procured when engaging a new long-term advisor for the real assets portfolio, and that the advisor performs their contractual obligations in accordance with the contract; and
- Update the checklist for due diligence to ensure that it consistently acts on the terms recommended by the Advisor for negotiation, and that adequate documentation is kept to demonstrate the completion of the required due diligence steps.

OIM accepted the recommendations and has initiated action to implement them. Actions required to close the recommendations are indicated in Annex I.

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Audit of management of real assets in the Office of Investment Management of the United Nations Joint Staff Pension Fund

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of management of real assets in the Office of Investment Management (OIM) of the United Nations Joint Staff Pension Fund (UNJSPF).

2. UNJSPF was established in 1949 by the General Assembly to provide retirement, death, disability and related benefits for the staff of the United Nations and other international intergovernmental organizations admitted to the membership of UNJSPF. Under the authority of the Secretary-General, the Representative of the Secretary-General for the investment of the assets of the Fund has a fiduciary responsibility to manage the investments in the best interests of the Fund's participants and beneficiaries. The investments of the Fund managed by OIM amounted to \$84.4 billion as of 30 June 2023, allocated across different asset classes as shown in Table 1. The Strategic Asset Allocation (SAA) targets were established in 2023 following an Asset-and-Liability-Management (ALM) study. The Fund's long-term investment objective is to meet or exceed a 3.5 per cent real return.

Table 1: UNJSPF asset value and allocation as of 30 June 2023

Asset class	Market value (million US dollars)	Percentage of total	SAA percentage **
Public equities	43,940	52.0	43.0
Private equity	7,272	8.6	7.0
Real estate	7,040	8.3	8.5
Real assets	384	0.5	1.5
Fixed income	24,457	29	40.0
Cash and equivalents*	1,336	1.6	1.0
Total	84,429	100.0	100.0

*With \$274 million in operational cash included.

**Adopted in August 2023 following the ALM study.

3. The Fund's Investment Procedures of 2023 provide that the real assets portfolio may include three types of assets: infrastructure¹, timberland and farmland, and natural resources/commodities². The purpose of the portfolio is to provide stable and predictable cash yield, diversification of equity risk, and inflation protection. UNJSPF first started investing in commodities in 2010 through three funds managed by two external managers, with \$100 million allocated to each. Considering poor performance and prospects, OIM decided to terminate the investments with the two managers in 2019 and 2021 with \$46.5 million and \$50.9 million recovered, respectively.

4. The Fund began investing in infrastructure in 2011, initially following an opportunistic approach since there was no SAA target for this asset class³. OIM set a separate SAA allocation target (4 per cent) for infrastructure and timberland for the first time in the investment policy statement (IPS) of 2019. As of

¹ Infrastructure includes long-life assets, properties or other structures that provide some type of essential product or service which generate investment returns through income and capital appreciation. Typically, infrastructure investments have high barriers to entry due to significant capital expenditure requirements, exclusive long-term contracts or regulatory requirements.

² Natural resources are resources that require some type of extraction, development or conversion to realize their value.

³ The IPS of 2016 grouped real estate, infrastructure and timberland into real assets and set a total target allocation of 9 per cent, but did not specify the allocation to infrastructure and timberland.

30 June 2023, the Fund committed a total of \$611 million to infrastructure and timberland investments and the total market value of existing investments was \$384 million. Table 2 provides the breakdown of eight real assets funds OIM invested in, with individual fund names anonymized.

Table 2: Schedule of real assets investments as of 30 June 2023 (million US dollars)

Sub-asset class	Investment	Vintage year	Fund strategy	Commitment	Contribution	Distribution	Net Asset Value	Total Value	Net TVM*	Net IRR** (%)	Peer Rank (Quartile)
Infra.	Manager A Fund I	2011	Core-Plus	50	48	41.3	4.1	45.4	0.9x	-1.3	Fourth
Infra.	Manager B Fund IV	2011	Value-add	50	49.8	35.7	1.8	37.5	0.8x	-5.8	Fourth
Infra.	Manager C Fund	2013	Core-Plus	50	31.6	17.8	7.0	24.7	0.8x	-3.9	Fourth
Infra.	Manager A Fund II	2014	Core-Plus	75	75.3	74.5	24.1	98.6	1.3x	12.8	Second
Infra.	Manager A Fund III	2019	Core-Plus	100	90.8	17.2	94.6	111.7	1.2x	12.9	First
Infra.	Manager D Fund IV	2019	Value-Add	110	87	2.3	89.7	92	1.1x	4	Third
Infra.	Manager E Fund	2021	Core	150	152.9	2.9	162.9	165.8	1.1x	6.8	Third
Subtotal				585	535.4	191.6	384.1	575.7	0.98x		Fourth
Timber.	Manager E Fund V	2013	N.A.	18.8	16.7	24.5	0.1	24.5	1.5x	6.2	Second
Grand Total				603.8	552.2	216.1	384.2	600.2	1.1x	3.2	

* TVM, or Total Value Multiple, also known as Total Value to Paid-In Multiple (TVPI), is a performance metric that measures total value created relative to the capital invested, without consideration of time.

** IRR, or Internal Rate of Return, is a performance metric that is calculated based on the Portfolio's daily cash flows and market value as of quarter-end⁴.

5. The real assets portfolio was managed by OIM's Real Estate Team as a side portfolio from inception to 2019, when an investment officer at the P-4 level was appointed as a dedicated resource for the asset class and directly reported to the Director (a D-2 position subsequently converted to Chief Investment Officer). In May 2021, the portfolio was transferred to the Private Equity Team. The Director of Private Markets (D-1) has provided oversight since then.

6. Comments provided by OIM are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

7. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the management of real assets in OIM.

8. This audit was included in the 2022 risk-based work plan of OIOS due to risks and long-term strategic importance of real asset investments.

9. OIOS conducted this audit from July to October 2023. The audit covered the period from January 2019 to September 2023. Based on an activity-level risk assessment, the audit covered risk areas relating to real assets which included: (i) governance and policy framework; (ii) investment strategy and execution; and (iii) performance measurement and reporting.

⁴ IRR is often used for measuring the performance of Private Market investments. Unlike Time-Weighted Return (TWR) which is used to measure the performance of Public Market investments and the whole Fund, IRR is impacted by the timing and magnitude of cash flows. Fund manager's fees, expenses and carried interest (incentive fees) are excluded to derive net IRR.

10. The audit methodology included: (a) interview with key personnel; (b) review of relevant documentation; (c) analytical review of data; and (d) sample testing of due diligence processes using a judgemental sampling approach.

11. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

III. AUDIT RESULTS

A. Governance and policy framework

Governance and policy framework were generally adequate

12. In 2018, OIM established the Private Markets Committee to oversee the investments in private markets, including real estate, private equity and real assets. According to the terms of reference as updated in 2023, the Committee is chaired by the Chief Investment Officer and consists of all the directors at D-1 level in OIM. The Committee met monthly and on an ad-hoc basis to review the investment strategy and deal proposals. Detailed minutes were kept for meetings until August 2021 when the Committee had its 55th meeting but since then, only the Committee's decisions (i.e., approval of investment proposals) was recorded. According to OIM, the reason to suspend the detailed minutes was because it was too time-consuming and became obsolete, as the review and consultation were now conducted among the members to achieve consensus before the formal meeting.

13. The 2023 Investment Procedures of OIM describe the decision process for private markets investments from sourcing of investment opportunities to deal closing, roles and responsibilities of various OIM teams and the non-discretionary advisor (hereafter referred to as "the Advisor") engaged in 2019, as well as key investment criteria for evaluating investment opportunities. The Investment Procedures also stipulate the mandate, strategy and pacing plan, diversification parameters and investment channels.

14. Based on the above, OIOS concluded that the governance and policy framework for real assets was adequate, except for the need to enhance and consistently use the due diligence checklist (discussed later in the present report).

B. Investment strategy and execution

Need to incorporate lessons learned and risk management into the investment strategy

15. The Fund had not laid out a comprehensive strategy for investing in real assets until April 2019, when its Advisor proposed a strategy for the asset class. According to the proposed strategy, the real assets portfolio should aim to achieve a target return of 8 to 10 per cent in net IRR and a 3 to 5 per cent of mature portfolio yield⁵. The plan was to build a portfolio equal to 1.5 per cent of the Fund's total investments with a geographical diversification focusing on developed markets (target 90 per cent of the portfolio), and to invest predominantly in infrastructure with allocation to timber and agriculture opportunistically.

16. OIM updated the strategy on an annual basis since 2020. According to the latest plan that was updated to reflect the new SAA target allocation of 1.5 per cent and a correspondingly slower investment

⁵ Income generated by the investments.

pace and annual commitment targets, the expected return, geographical, sector as well as risk diversification targets all remained the same (see Table 3).

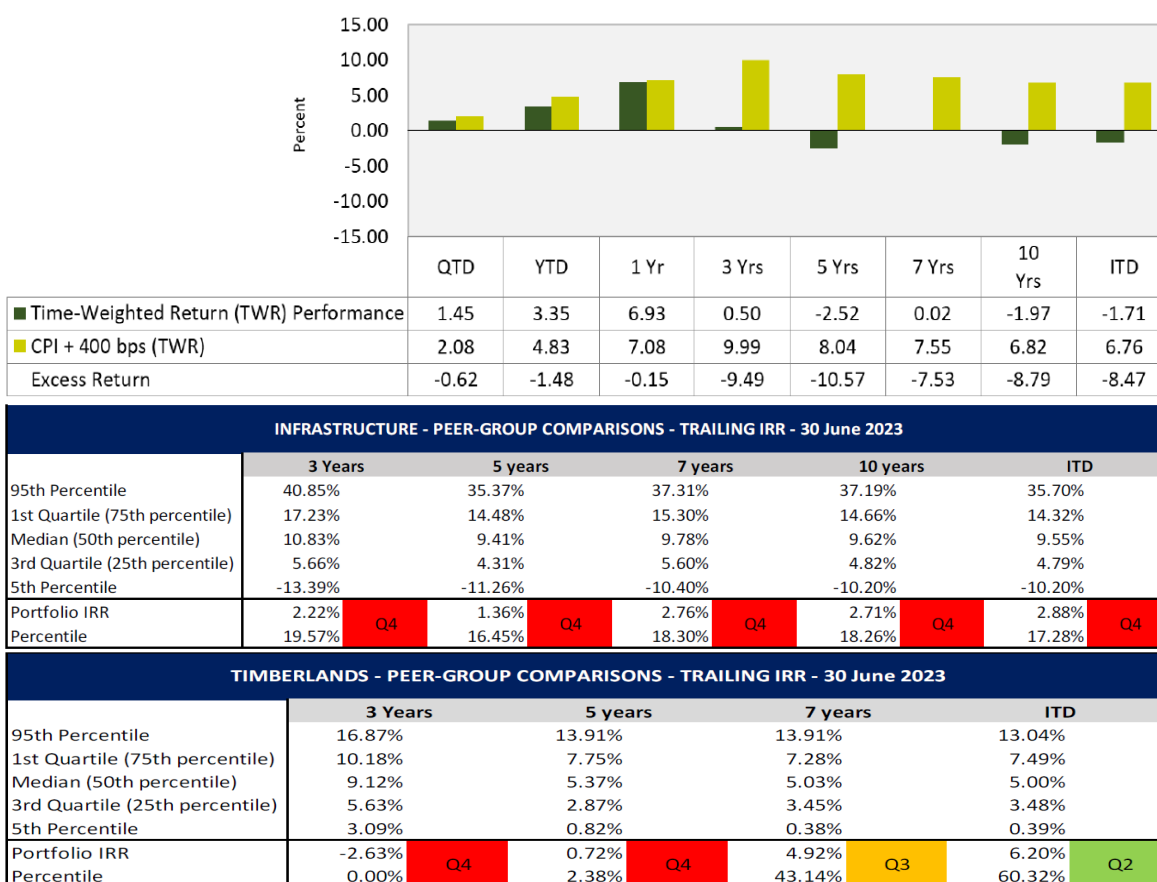
Table 3: OIM real assets strategy

Target allocation to infrastructure (%): 2019 strategic plan: 1.5 2019 IPS: 4 2022 IPS: 1 2023 IPS and current plan: 1.5	Return objective (net IRR): 8 – 10% with 3 – 5% yield
Diversification: Geographic: strong focus on developed markets. Sector: utilities, energy, transportation, and communications. Vintage year: spread out evenly.	Fund strategy: Core: 25 Core-Plus: 50 Value-Add: 25
Pacing: Grow in a controlled pace to avoid return and cash flow volatility.	Resourcing: Leverage non-discretionary advisor expertise in sourcing, capacity and experience. Build internal capabilities and external manager relationships.

17. As of 30 June 2023, the real assets portfolio only accounted for 0.5 per cent of the Fund’s total assets, well below the target allocation of 4 per cent set in the IPS of 2019 and 1 per cent set in the IPS of 2022. The Fund did not commit to any new real assets fund from 2015 to 2018, and also in 2021 and 2022, which created an imbalanced vintage year distribution. Since OIM first set a specific target allocation to real assets and developed a strategy for the asset class in 2019, only three investment deals were made, with a total commitment of \$260 million. In contrast, the Fund committed a total of \$1,942 million to 17 private equity funds in 2022 alone.

18. Furthermore, the portfolio failed to meet the target return. As of 30 June 2023, the portfolio’s performance since inception was -1.71 per cent in TWR and 3.2 per cent in net IRR. Chart 1 below shows the performance of the Fund’s real assets portfolio for different periods relative to its benchmark. The returns were not just significantly below the portfolio benchmark for the same period, they also compared unfavourably to those achieved by the peers. The performance of the infrastructure portfolio fell into the fourth quartile and bottom 20th percentile for all periods when compared to the peer group, while the better-performing timberland portfolio fared slightly better. To illustrate, OIOS noted that another New York-based public pension fund which started investing in infrastructure in 2012 and was advised by the same Advisor as of 2023, was able to invest in 40 investment deals since then with similar amount of committed capital and achieved a net IRR of 12.3 per cent as of 31 March 2023. The risk profile of that public pension fund’s infrastructure portfolio, according to its report, was much more conservative than that of UNJSPF, i.e., less risky, with 82.5 per cent invested in Core funds (see the following section for discussion on fund strategies and risk categories).

Chart 1: OIM real assets portfolio performance as of 30 June 2023



19. There could be various causes that contributed to the Fund’s inability to reach its target allocation and meet its return objective for real assets: for instance, lack of a clear strategy and dedicated resources before 2019 and turnover of staff assigned to manage the portfolio since then, but it can also be due to flaws in the investment strategy and/or lack of proper execution and monitoring. For instance, it could be due to poor fund or manager sourcing and selection, or concentration in certain sectors or geographies or vintage years. OIM had taken certain measures in recent years to strengthen the management of the real assets portfolio, including assigning ownership of the portfolio to the Private Equity Team which was mobilized to support real assets investments, and building a pipeline of prospective infrastructure funds. However, these actions were yet to result in a turnaround of the real assets portfolio.

20. OIOS is of the view that OIM still needed to conduct a comprehensive review of its strategy for real assets and its historical execution to identify the lessons learned and formulate a more robust strategy. Such a review should be done with in-depth performance attribution analysis and should answer questions such as why some funds in the portfolio performed well and others did not; and why UNJSPF selected some funds and managers that performed poorly and missed out many others that performed well. OIM can possibly benchmark against peer investors who have successfully implemented a real assets investment strategy. As OIM is in the process of recruiting a dedicated investment officer and a new advisor for real assets, their onboarding should provide a good opportunity to conduct such a review.

21. OIM should also identify major risks that may prevent the Fund from achieving the target allocation and return objective for real assets and design measures and designate owners to mitigate such risks. Such

an exercise should be a joint effort involving the investment officers and risk officers for real assets and should be periodically refreshed.

(1) OIM should: (i) conduct an in-depth review of its real assets strategy and its historical performance to update the strategy based on lessons learned; and (ii) identify the major risks that may prevent the achievement of the target allocation and return objective for the real assets portfolio and implement mitigating measures.

OIM accepted recommendation 1.

Need to develop definitions for fund strategies to ensure proper portfolio risk diversification

22. The investment strategy recommended by the Advisor in 2019 consists of a target risk profile for the real assets portfolio. It used the industry standard categories for classifying real assets investments as Core, Core-Plus and Value-Add⁶. These terms indicate the strategy that the General Partner follows in selecting portfolio companies to invest in, as well as the risk profile of the fund. Core investments are typically funds that invest in mature infrastructure portfolio companies that generate steady income, such as a power plant with long-term contracts with its customers. Yield typically contributes more to total return than appreciation in value. Value-add is the riskiest category among the three where typically no long-term contract exists between the portfolio companies of the fund and their clients, but the companies have strong potential in generating income in future and hence have high potential in value appreciation. The companies usually have to make capital investments to construct the physical assets. Core-Plus is a middle category that balances stable income with potential of value appreciation.

23. Since there is no authoritative or clear-cut definitions for these risk categories, some General Partners may present investment opportunities in one risk category but with a target return of another category (for instance, a Core-Plus fund with a target return of Value-Add). While OIM raised questions about the fund strategies of the General Partners during internal discussions when reviewing investment opportunities, it relied on the original classification from the General Partners when labeling the funds held in the portfolio or to be sourced. The risk of doing so may result in construction of a portfolio that significantly deviates from the targeted risk profile: 25, 50 and 25 per cent in Core, Core-Plus and Value-Added, respectively. There would be implications for portfolio performance as well. Moreover, there could be a strategy shift when the General Partner invests the funds raised in the portfolio companies. This again can result in a portfolio with a risk profile different from the targeted one.

24. Therefore, there is a need to develop and consistently apply a set of criteria to classify the real assets funds into proper categories at various stages of investment, including sourcing, evaluating and monitoring so that the Fund can have assurance that the portfolio's risk profile is as intended.

(2) OIM should develop a set of criteria or definitions for classifying real assets investments into proper risk categories.

OIM accepted recommendation 2.

⁶ The Investment Procedures mentioned two more categories on the higher risk end: Opportunities and Secondaries, but OIM had no target allocation for them.

Need to rationalize the scope of advisory services and strengthen contract management

25. Prior to 2019, the non-discretionary advisor for real estate also advised OIM on real assets, including conducting independent due diligence on investment deals. The contract with the Advisor hired in January 2019 was for a term of two years which was extended for an additional two years up to January 2023 for a total price of \$910,000. The contract was not further extended because the Advisor asked for a significantly higher annual fee. During the audit, OIM was sourcing for a temporary advisor for one year. OIM planned to initiate in 2024 the hiring of a firm that can assist the Fund in the long-term.

26. Despite the non-discretionary nature of the advisory services whereby OIM retained the decision-making authority, the contract requires the Advisor to provide a complete range of advisory services, viz.: strategic plan, comprehensive due diligence for prospective investment deals, manager selection, portfolio monitoring, risk assessment, accounting reconciliation, quarterly update report and Fund performance summary. Almost all these requirements fall within the responsibilities of OIM's internal functions. It is understandable that the Advisor, given their expertise, market knowledge and extensive relationships with fund sponsors (General Partners) and other investors (Limited Partners), can perform certain tasks better than OIM's in-house teams (for instance, assessment of the reasonableness of management fees charged by one General Partner versus the others). On the other hand, it is unlikely that the Advisor can add value on administrative or operational tasks such as accounting reconciliation, review of management fee calculation and cash distributions – functions that OIM's internal teams are well equipped to perform with the assistance of the Master Record Keeper and other vendors. Even some specialized investment management activities such as regular performance review against peer group or broad market can be done internally as OIM pays for and has access to performance data of various real asset indices which are also used by the Advisor. Therefore, there was a need to rationalize the scope of the services and procure only those that are necessary. OIM stated that it would do so when procuring new long-term advisory services in 2024.

27. On the other hand, the Advisor did not fully deliver the services required by the contract. For example, the contract requires a strategic review and investment policy plan on annual basis, descriptions of which indicate that it is an annual strategic plan for the Fund's real assets portfolio. However, the Advisor only provided a strategic plan proposal in April 2019 soon after the signing of the contract. The Advisor was required to submit to OIM on a quarterly basis, inter alia, a comparison of the performance of the Fund to the approved business plan, and a report on the Advisor's progress in fulfilling its goals and objectives for the real assets portfolio for the year. But this was not done for all the quarters.

28. Furthermore, the quarterly performance reports and analysis prepared by the Advisor were by and large generic and descriptive in nature, based on information from sources accessible to OIM. In OIOS' view, the performance reports could be made more insightful and useful for OIM by indicating: (i) whether the positive performance or value appreciation of certain funds or portfolio companies was caused by market movements or by operational enhancements implemented by the company management and/or General Partners; (ii) the prospect of the funds in OIM's portfolio and the companies owned by the funds, especially those that had poor historical or current performance; and (iii) actions taken by the General Partners.

29. There was no indication that OIM had raised performance issues and opportunities for improvement with the Advisor. The standard Contractor Performance Report filled out by OIM for the contract duration of four years did not identify any performance issues.

(3) OIM should ensure that: (i) only the required services are procured when engaging a new long-term advisor for the real assets portfolio; and (ii) the advisor performs their contractual obligations in accordance with the contract.

OIM accepted recommendation 3.

Need to update and consistently use the checklist for due diligence

30. Due diligence is one of the most critical steps in assessing the merits of a prospective investment opportunity and its fit in the Fund's strategy. OIM usually assigns an investment officer to lead the process (hence known as the "deal lead"). The investment team prepares a first stage memorandum after preliminary assessment of an investment fund to justify the need to proceed to comprehensive due diligence. Upon approval of the memorandum by the Private Markets Committee, the deal lead informs other teams, including Operations, Risk and Environmental, and Social and Governance, who participate in the process and conduct an assessment related to their functional responsibilities. As mentioned above, the Advisor does their own independent due diligence⁷ and the two parties exchange ideas at later stages.

31. OIOS reviewed the files for three infrastructure funds that OIM decided to invest in since 2019 and noted that the due diligence conducted was generally comprehensive, judging by the memoranda produced by the investment teams and the Advisor. The due diligence covered, among other topics, the most important areas such as people and organization of the General Partners (including those assigned to manage the fund), the investment strategy, and the track record of the funds sponsored by the same manager.

32. OIM had institutionalized a checklist to control the due diligence process. The list consisted of a total of 19 steps or tasks, starting from "review of investment memorandum and other marketing materials (from the General Partner)" to "conduct final review and negotiation of the partnership agreement and other legal documentation". However, among the three deals reviewed by OIOS, OIM was only able to provide the completed checklist for one, which was initiated in 2018 by the Real Estate Team when the ownership of the portfolio was still with them. All the first 18 steps were checked to indicate completion. However, there was no documentation to evidence the completion of seven tasks, even though the final memorandum indicated that they were conducted. Comparing the due diligence files against the same checklist also indicated gaps in documentation for the other two deals closed since 2019.

33. The Advisor, in line with the contract with OIM, identified in their final investment memoranda (prepared upon completion of the due diligence process) fund terms that were more favourable to the General Partners and those not in line with market practices. OIM was supposed to obtain more favourable terms through negotiation with the General Partners during the final stage. However, while the final agreement did not consist of more favourable terms, there was no documentation to show that OIM did negotiate for them, or that an informed decision was made not to do so for valid considerations. OIM stated that the deal team always tried to negotiate but the Office had limited bargaining power due to the small commitment relative to the size of the funds.

34. OIOS is of the view that one more item should be added to the checklist for OIM to consistently act on the terms that the Advisor believes should be negotiated, regardless of the outcome. OIM should also add a column to the checklist to identify the documentation created and filed to evidence the completion of the due diligence tasks, in addition to checking each item. The checklist can be attached to the second stage memorandum submitted to the Private Markets Committee for approval of the investment deal.

⁷ As the Advisor has other clients, it is likely that they recommend the same prospective investment opportunities to many clients, if not all. Therefore, the due diligence conducted by the Advisor may not be solely for UNJSPF.

- (4) OIM should update the checklist for due diligence to ensure that it consistently acts on the terms recommended by the Advisor for negotiation, and that adequate documentation is kept to demonstrate the completion of the required due diligence steps.**

OIM accepted recommendation 4.

C. Performance measurement and reporting

Performance measurement and reporting were in accordance with industry standards

35. OIM had been using US CPI plus 4 per cent as the benchmark for real assets. The consultant that conducted the 2023 ALM study and the Advisor engaged in 2019 for real assets assessed the pros and cons of various benchmark options and endorsed the current benchmark for the infrastructure portfolio, especially considering that one of the objectives of the portfolio is to provide inflation protection. The same benchmark is also commonly used by other investors for real assets. OIM also accepted the recommendation of the ALM consultant to use specific timberland and farmland market indices as benchmarks for the two sub-asset classes. Since the only timberland fund invested in by OIM was almost fully realized through distributions, and there is no SAA allocation to timberland and farmland, the use of these new benchmarks would be limited.

36. OIM measures and reports performance of the real assets portfolio using two performance metrics: TWR at the Fund and portfolio level and IRR at portfolio and individual holdings (funds invested in) level. As shown in Chart 1 above, only the TWR performance is compared against the benchmark to derive excess return as the benchmark cannot be computed on an IRR basis. OIOS confirmed that the performance measurement and reporting complied with the latest Global Investment Performance Standards⁸.

IV. ACKNOWLEDGEMENT

37. OIOS wishes to express its appreciation to the management and staff of OIM for the assistance and cooperation extended to the auditors during this assignment.

Internal Audit Division
Office of Internal Oversight Services

⁸ Standards published by the Chartered Financial Analyst Institute and widely accepted as best practices for investment performance measurement and reporting in the industry.

STATUS OF AUDIT RECOMMENDATIONS

Audit of management of real assets in the Office of Investment Management of the United Nations Joint Staff Pension Fund

Rec. no.	Recommendation	Critical ⁹ / Important ¹⁰	C/ O ¹¹	Actions needed to close recommendation	Implementation date ¹²
1	OIM should: (i) conduct an in-depth review of its real assets strategy and its historical performance to update the strategy based on lessons learned; and (ii) identify the major risks that may prevent the achievement of the target allocation and return objective for the real assets portfolio and implement mitigating measures.	Important	O	Receipt of documentation showing an updated investment strategy for real assets incorporating lessons learned and measures designed to mitigate major risks that may prevent the achievement of the target allocation and return objective.	31 December 2024
2	OIM should develop a set of criteria or definitions for classifying real assets investments into proper risk categories.	Important	O	Receipt of documentation indicating criteria or definitions developed for classifying real assets investments into appropriate risk categories.	30 June 2025
3	OIM should ensure that: (i) only the required services are procured when engaging a new long-term advisor for the real assets portfolio; and (ii) the advisor performs their contractual obligations in accordance with the contract.	Important	O	Receipt of documentation showing that: (i) only the required advisory services are procured; and (ii) the new advisor is fully meeting the requirements of the contract.	31 December 2024
4	OIM should update the checklist for due diligence to ensure that it consistently acts on the terms recommended by the Advisor for negotiation, and that adequate documentation is kept to demonstrate the completion of the required due diligence steps.	Important	O	Receipt of documentation showing: (i) updated checklist for due diligence to ensure action on terms to be negotiated per suggestion of the Advisor and reference to documentation produced for the itemized tasks; and (ii) use of the updated checklist for conducting due diligence.	30 September 2024

⁹ Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

¹⁰ Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.

¹¹ Please note the value C denotes closed recommendations whereas O refers to open recommendations.

¹² Date provided by OIM in response to recommendations.

APPENDIX I

Management Response




To: Mr. Gurpur Kumar
Deputy Director
Internal Audit Division, OIOS

DATE: December 11, 2023


Reference: OIOS-2023-02026

FROM: Mr. Pedro Guazo
Representative of the Secretary-General
for the investment of UNJSPF assets


Pedro Guazo (Dec 11, 2023 19:06 EST)


-and-

Mr. José Antonio Nunez Poblete
Chief Risk and Compliance Officer
Office of Investment Management



-and-

Mr. Toru Shindo
Chief Investment Officer
Office of Investment Management


Toru Shindo (Dec 12, 2023 07:44 EST)

-and-

Mrs. Terezie Hesounova
Director of Private Markets
Office of Investment Management


Terezie Hesounova (Dec 11, 2023 18:06 EST)

SUBJECT: Draft report on an audit of Real Assets in the Office of Investment Management of the United Nations Joint Staff Pension Fund (Assignment No. AS2022-801-02)

1. OIM acknowledges receipt of the draft report of an audit of Real Assets in the Office of Investment Management of the United Nations Joint Staff Pension Fund (Assignment No. AS2022-801-02).
2. OIM would like to take this opportunity to thank the Office of Internal Oversight Services and staff for their comprehensive effort including the on-going collaboration during the thorough review and analysis, and the detailed findings, observations and recommendations.
3. OIM has attached the completed form provided (Appendix I) to the recommendations related to OIM.

c.c.

Ms. Maria Tsimboukis, OIM
Mr. Byung-Kun Min, OIOS
Mr. David Nyskohus, OIOS
Mr. Jeffrey Lin, OIOS

Management Response

Audit of management of real assets in the Office of Investment Management of the United Nations Joint Staff Pension Fund

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	OIM should: (i) conduct an in-depth review of its real assets strategy and its historical performance to update the strategy based on lessons learned; and (ii) identify the major risks that may prevent the achievement of the target allocation and return objective for the real assets portfolio and implement mitigating measures.	Important	Yes	Director of Private Markets	Q4 2024	
2	OIM should develop a set of criteria or definitions for classifying real assets investments into proper risk categories.	Important	Yes	Chief Risk & Compliance Officer and Director of Private Markets	Q2 2025	
3	OIM should ensure that: (i) only the required services are procured when engaging a new long-term advisor for the real assets portfolio; and (ii) the advisor performs their contractual obligations in accordance with the contract.	Important	Yes	Director of Private Markets	Q4 2024	
4	OIM should update the checklist for due diligence to ensure that it consistently acts on the terms recommended by the Advisor for negotiation, and that adequate documentation is kept to demonstrate the completion of the required due diligence steps.	Important	Yes	Director of Private Markets	Q3 2024	

¹ Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

² Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.