Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

REPORT 2024/102

Audit of sustainable investing in the Office of Investment Management of the United Nations Joint Staff Pension Fund

There is need for better integration, monitoring of private markets practices, corporate stewardship and performance reporting of sustainable investing activities

30 December 2024
Assignment No. AS2022-801-03

Audit of sustainable investing 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 sustainable investing in the Office of Investment Management (OIM) of the United Nations Joint Staff Pension Fund (UNJSPF). The objective of the audit was to assess the adequacy and effectiveness of the governance, risk management and control processes over sustainable investing in OIM. The audit covered the period from January 2021 to September 2024 and included a review of: (i) governance and policy framework, (ii) sustainable investing strategy; (iii) climate action plan; and (iv) communication and reporting.

The audit indicated the need for OIM to improve ESG integration, monitoring of private markets practices, corporate stewardship and performance reporting of sustainable investing activities.

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

- Develop annual work plans with specific actions and performance metrics to strengthen ESG integration;
- Implement a systematic ESG monitoring plan for private markets investments;
- Reassess and implement measures to improve the effectiveness of its corporate stewardship programme;
- Add carbon intensity measures to its carbon footprint reports and perform carbon emission attribution analysis;
- Ensure that its public communication and reporting on sustainable investing reflect the need for more urgent and effective actions to reduce greenhouse gas emissions, capture the general and unique challenges in sustainable investing, and add appropriate explanatory notes when reporting ESG-related performance figures; and
- Ensure that its reports on engagement activities focus on the Fund’s investments and priorities to avoid potential confusion or controversy.

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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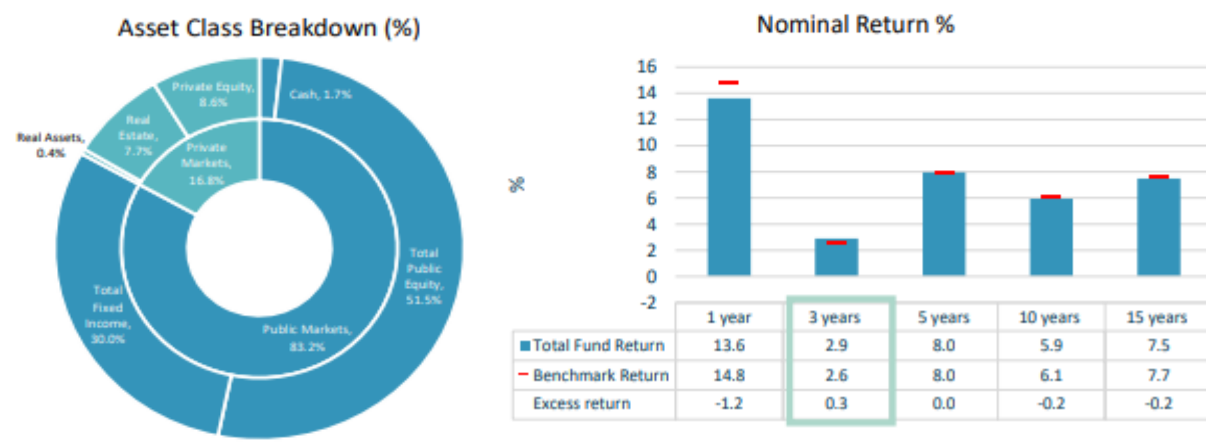
Audit of sustainable investing in the Office of Investment Management of the United Nations Joint Staff Pension Fund

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of sustainable investing 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 the Fund. Under the authority of the Secretary-General, the Representative of the Secretary-General (RSG) 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 $88.3 billion as of 31 December 2023 (most recent audited results), allocated across various asset classes as shown in Figure 1, which also provides a snapshot of the performance of the investment portfolio for various time periods. The Fund's long-term investment objective is to meet or exceed a 3.5 per cent real return.

Figure 1: UNJSPF asset allocation and investment performance as of 31 December 2023



Source: OIM website. Similarly, information in other figures of this report is from OIM's website or documents, unless specified otherwise.

3. Sustainable investing, also known as responsible investment, is a practice of considering environmental, social and governance (ESG) issues when making investment decisions and influencing companies or assets (known as active ownership or stewardship). The approach seeks to align investment goals with ethical and sustainable principles while aiming to generate financial returns. It complements traditional financial analysis and portfolio construction techniques. Some investors have also broadened the practice to include "impact investing", i.e., to actively seek positive outcomes for people and the environment while attempting to generate adequate financial returns and avoid negative outcomes. The launch of the United Nations-supported Principles for Responsible Investment (PRI)[1] in 2006 provided a set of guidelines for institutional investors to voluntarily integrate ESG into their investment decisions. As international agreements were reached to combat climate change, national governments, regulatory institutions and industrial organizations enacted various requirements and standards for ESG practices,

[1] PRI is now a United Nations-supported collaborative network of financial institutions working together to implement its six aspirational principles. It is the world's leading proponent of responsible investment.

including voluntary and mandatory reporting standards. Meanwhile, more and more institutional investors and key stakeholders have mainstreamed sustainable investing.

4. UNJSPF excluded conventional and unconventional weapons from its investments upon its establishment and then excluded tobacco in 1960. In 2006, the Fund became a founding signatory of PRI. In 2020, UNJSPF announced its commitment to net-zero[2] greenhouse gas emissions by 2050 and joined the Net-Zero Asset Owners Alliance (NZAOA), a United Nations-convened member-led initiative of institutional investors committed to transitioning their investment portfolios to net zero greenhouse gas emissions by 2050 – consistent with a maximum temperature rise of 1.5 degrees Celsius (1.5°C). OIM outlined its approach towards sustainable investing in the Fund's Investment Policy in 2019, aiming to integrate ESG considerations into all major investment processes and asset classes, covering all important ESG issues to improve the environment, labour practices, non-discrimination and human rights. Climate action has been at the centre of the strategy and OIM has taken more tangible actions in this area.

5. OIM established a dedicated Sustainable Investing Team (SIT) in 2019. Currently the team consists of four staff: one P-4, two P-2 and one P-1. The Team reports to the Chief Investment Officer (CIO) and works closely with the investment teams managing the various investment portfolios of public and private asset classes. In late 2023, the Team split into two, dedicating one P-2 staff to impact investing and partnership with other investors and industry organizations, with a new P-3 post added for this responsibility in 2024. Despite its small size and short history, the Team, under OIM leadership and in collaboration with the investment teams, established a comprehensive sustainable investing framework, conducted ESG reviews for public and private investments, prepared ESG reports and made progress in most substantive areas. The Fund was recognized as one of "the 30 Most Responsible Asset Allocators" by the Responsible Asset Allocator Initiative in 2021 for its commitment to and early successes in sustainable investing. However, sustainable investing is a fast-evolving subject with new regulations, standards and practices constantly emerging, and thus it requires close monitoring of the industry and consistent efforts to keep abreast of best practices, with the ultimate objective of improving the long-term risk-adjusted return of the investment portfolio and promoting positive real-world change. Meanwhile, investors pursuing sustainable investing face various challenges such as regulatory uncertainty, political backlash, difficulty in decarbonizing the real economy and balancing return targets with positive impact in the real world.

6. In OIM, ESG-related data was compiled and stored in the trade order management system together with financial data for the individual issuers of stocks and fixed income securities so that investment officers can have a one-stop access to them, facilitating the integration of ESG factors into investment decisions. This electronic system is broadly used in the financial industry. It provides real-time market data including price quotes, analytics, news and messaging as well.

7. During this audit, OIM was preparing its first sustainability report following the International Financial Reporting Standards - Sustainability Disclosure Standards (IFRS SDS) developed by the International Sustainability Standards Board. OIM hired an accounting firm to assist in this endeavour. The firm assessed the Fund's readiness to report in accordance with the standards and identified various gaps between the standards and OIM's sustainability practices, ranging from governance and strategic policies, processes and reporting to operational processes such as monitoring of targets and goals. The advisor worked with OIM to develop an action plan to address the gaps so that OIM can publish the report by the end of 2024. OIOS reviewed the gap assessment together with the action plan and took them into consideration while drafting this report.

8. Comments provided by OIM are incorporated in italics.

[2] Net zero means cutting carbon emissions to a small amount of residual emission that can be absorbed and durably stored by nature and other carbon dioxide removal measures, leaving zero in the atmosphere.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

9. The objective of the audit was to assess the adequacy and effectiveness of the governance, risk management and control processes over sustainable investing in OIM.

10. This audit was included in the 2022 risk-based work plan of OIOS due to the risks relating to sustainable investing, as well its long-term strategic importance.

11. OIOS conducted this audit from December 2023 to November 2024. The audit covered the period from January 2021 to September 2024. Based on an activity-level risk assessment, the audit covered risk areas relating to sustainable investing, which included: (i) governance and policy framework, (ii) sustainable investing strategy; (iii) climate action plan; and (iv) communication and reporting.

12. The audit methodology included: (a) interviews with key personnel; (b) review of relevant documentation; (c) analytical review of data; and (d) sample testing of ESG reviews using a judgmental sampling approach. Additionally, to understand industry best practices, OIOS studied the published policies and reports on the ESG programmes of 11 public pension funds from various regions in the world.

13. 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

<u>OIM was enhancing its governance and policy framework for sustainable investing</u>

14. OIM launched and expanded sustainable investing under the existing governance structure for investment management of the Fund, with the Secretary-General serving as the fiduciary and the RSG deciding and overseeing the implementation of the overall investment strategy. The external Investments Committee plays an important advisory role, and the Pension Board provides input to the Investment Policy. The Internal Investment Committee (IIC), chaired by the CIO, develops and implements the short-term investment strategy, and reviews and approves investment transactions. The creation of SIT provided critical research and operational support for integrating ESG considerations into the investment processes and other ESG initiatives.

15. To align with industry practice and implement the recommendation of the consultant for preparing the IFRS SDS report, OIM created a Responsible Investment Committee in June 2024 to support IIC in overseeing the sustainability strategy and its implementation. Its main responsibilities, according to the draft Terms of Reference, include advising the RSG on ESG matters and changes to the sustainability strategy, overseeing the strategy, performance and implementation of sustainable investing for each asset class, and setting, monitoring and reviewing ESG targets. The Committee is also chaired by the CIO and meets at least once a quarter. Meanwhile, OIM was working on other governance-related recommendations, such as developing tailored training to the Investments Committee and senior management, and documentation of governance policies.

16. OIM promulgated a standalone Sustainable Investing Manifest and Policy in 2023 as an overarching policy on sustainable investing. Besides, OIM developed separate policies for specific subjects such as engagement, proxy voting and impact investing. SIT also drafted operating procedures for its various responsibilities. Overall, the policy framework is comparable to that of peer pension funds. SIT,

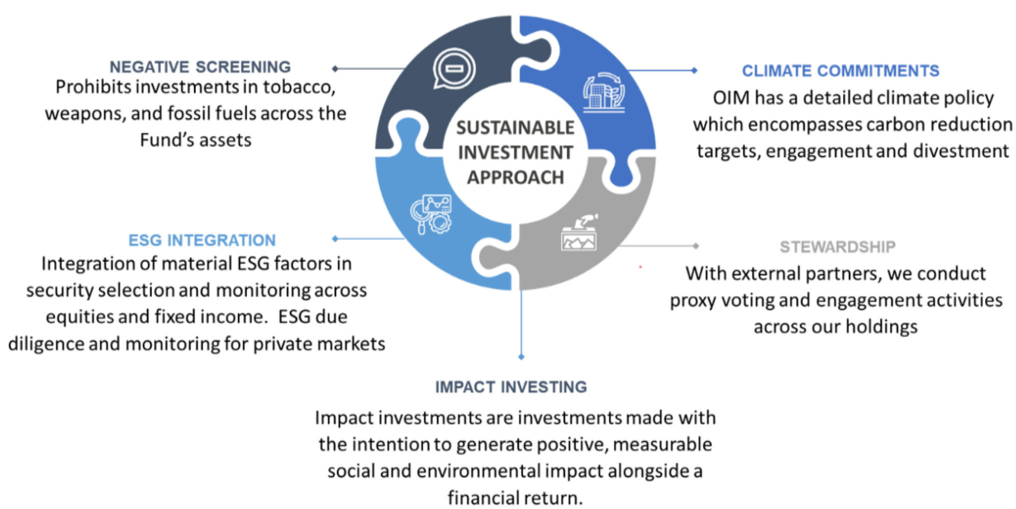
under the oversight of the Responsible Investment Committee, is developing other policies such as for investments with low ESG ratings[3], especially the lowest "CCC" rating, and those marked as United Nations Global Compact violators[4]. In view of the various actions being taken by OIM, OIOS did not make any recommendations in this area.

B. Sustainable investing strategy

Need for annual ESG integration action plans with performance metrics and targets

17. OIM articulated its approach for sustainable investing in the Sustainable Investing Manifest and Policy, through which OIM explained that ESG issues would influence the long-term value of investments and hence need to be systematically factored into its decision-making processes to ensure the Fund's sustainability. The Policy also defined the scope of ESG issues relative to the four pillars of OIM's sustainable investing approach: negative screening, climate commitments, ESG integration and stewardship. OIM has recently added impact investing as the fifth pillar. These pillars are interrelated and overlap each other. Collectively, they address all ESG themes and contribute to the goals of sustainable investing. Figure 2 shows the Fund's sustainable investment approach.

Figure 2: UNJSPF's sustainable investment approach



18. The Policy further outlined the actions OIM would take to implement the approach. So far, OIM had taken concrete steps on all fronts. For instance, in 2021, UNJSPF exited and excluded from its investment portfolio the securities (equities and bonds) of companies involved in the fossil fuel value chain, including thermal coal (exclusion of companies deriving more than one per cent of revenue from thermal coal) and oil and gas (companies deriving more than ten per cent of revenue from fossil fuel activities). OIM has also made ambitious climate commitments, used service providers for shareholder stewardship, and made investments with the intention to generate positive real-world impact as explained later in the present report.

[3] Sourced from an external service provider that also provides the customized indexes for OIM as benchmarks. ESG ratings are similar to credit ratings and are used to indicate the level of ESG risks a listed company faces.
[4] The Global Compact has 12 principles in four areas. The ESG rating provider mark companies with significant reported controversies, for instance, alleged violations of human rights.

19. ESG integration remains a critical and challenging task for sustainable investing. So far, SIT has compiled a set of data, both generated in house and procured from external vendors, such as ESG ratings and made them available to the public equities and fixed income investment officers for reference when making investment decisions or monitoring their holdings. Quarterly ESG reports for the various investment portfolios showing their ESG ratings relative to their benchmarks were also generated and provided to investment officers. For initiating new positions, i.e., purchase of securities that OIM did not own yet, investment officers for public equities are required to fill out the standard "Investment Rationale Form" which has a section on analysis of ESG ratings. Since 2023, SIT performed in-depth ESG assessments of certain portfolio companies, such as those with a "CCC" rating, using materiality standards from the Sustainability Accounting Standards Board (SASB)[5] and ESG data from multiple sources.

20. To further integrate ESG factors, OIM developed an "Integration Roadmap" in April 2024, laying out a vision for the period from 2024 to 2026 and beyond on how to conduct comprehensive assessment of sustainability risks and opportunities, involving both SIT and other investment teams. It is envisaged that ESG will be considered for portfolio construction using a top-down approach to mitigate macro/systemic risks, while idiosyncratic risks of individual holdings will be identified using a bottom-up approach. The objectives were broadly defined as "wide-spread use of ESG," and "engagement: questions to management." In OIOS' view, the roadmap needs to be translated into annual work plans with specific actions and performance metrics/targets to measure the progress of integration against the roadmap. Doing so should also improve the clarity of the two broad objectives.

(1) OIM should develop annual work plans with specific actions and performance metrics to enhance the implementation of its ESG integration plan.

OIM accepted recommendation 1.

<u>Need to strengthen the monitoring of ESG practices of General Partners for private markets investments</u>

21. Apart from excluding the same sectors (fossil fuel, weapons and tobacco), OIM did not set any ESG threshold for initial private markets investments. There is no requirement on the ESG programme of the General Partners. For re-investments, OIM requires the General Partners to be a PRI signatory.

22. For initial investments with a new General Partner, SIT conducted a comprehensive ESG review as part of the overall due diligence process. An ESG review memorandum was created and submitted to the Private Markets Committee (PMC) for its decision together with due diligence results from other teams. OIOS reviewed all the ESG reviews conducted by SIT for 37 private markets investment deals (14 real estate and 23 private equity) considered by OIM in 2022 and 2023. SIT used a comprehensive questionnaire that is closely aligned with the PRI's Limited Partners' Private Equity Responsible Investment Due Diligence Questionnaire and the Institutional Limited Partner due diligence questionnaire, covering all important topics including ESG governance, policy and investment processes. The memoranda consisted of a summary conclusion that highlighted the strengths and weaknesses of the General Partner's ESG programme, followed by commentary on the individual components. After a new member joined SIT in late 2022, the Team started assigning an overall rating to ESG programmes with scores for each aspect. For some of the investment cases assessed, SIT even made recommendations on how to improve the General Partner's ESG programme. The separate ESG assessments performed by non-discretionary advisors for the same investment deals provided detailed commentary on various aspects of the General Partners' ESG programme as well as an overall rating.

[5] SASB standards identify the subset of ESG issues most relevant to financial performance in each of the 77 industries.

23. Regardless of the ESG review results, PMC approved all the investment deals without exception, including those sponsored by General Partners with poor ESG rating from both SIT and advisors. As no detailed minutes were kept by PMC since August 2021 (55th meeting of the committee), OIOS was unable to determine how the ESG review results were considered during the Committee's meetings. OIM stated that internal communications would have happened before the final PMC meeting if there was anything unclear or concerning. After investment deals were concluded and during the life cycle of those investments, OIM did not follow up on the ESG practices of the General Partners in a systematic way to see whether there was any improvement, especially those with weak ESG policies and practices as assessed during due diligence. OIM cited lack of resources and leverage over the General Partners during the investment period as reasons for not doing so. As a result, the monitoring was limited to checking the PRI ratings of the General Partners on an annual basis.

24. In OIOS' opinion, OIM should institutionalize a more robust ESG monitoring mechanism for private markets investments to ensure that ESG risks are duly considered and best efforts are made to ensure that ESG practices of the General Partners will enhance the value of the related investments. OIM could start with the new investments in the last two years to build on the ESG assessment and data acquired during the due diligence process. Moreover, OIM planned to measure and report carbon emissions of its private equity, infrastructure and equity real estate funds in 2025 and set reduction targets for these asset classes in 2026. Without more in-depth and systematic monitoring of the General Partners' ESG practices, these tasks would be more difficult.

(2) OIM should implement an action plan to strengthen its ESG monitoring of private markets investments.

OIM accepted recommendation 2.

Need to reassess and improve the effectiveness of the corporate stewardship programme

25. Institutional investors seek real world impact through stewardship – engagement which refers to constructive dialogue to persuade companies to take certain actions and shareholder voting (often through a proxy and referred to as proxy voting) to reward or punish management or board members. Stewardship is a critical pillar of OIM's sustainable investing strategy. Engagement is also given as one of the three pillars of OIM's net-zero strategy. Apart from engaging with corporations, investors also engage with governments and public institutions for them to promulgate certain laws, policies, regulations and standards that would have positive impact on the environment, society, economy and the capital market. OIM stated that it would focus on corporate engagement and asset managers, i.e., to engage with the management of the companies OIM invested in and with the external asset managers. OIM also participated in collective engagement through initiatives such as NZAOA and Climate Action 100+[6].

26. Since OIM had outsourced corporate engagement in near totality, it relied on the consultant's engagement methodology and strategy to identify companies to engage with, select thematic topics to engage on, decide the engagement approach, and set engagement objectives and milestones to measure progress. OIM stated that it gave the consultant access to its holdings and was informed of and agreed on the strategy. The consultant published a detailed annual report on its stewardship activities and achievements. OIM posted on its website an engagement report with mainly high-level statistics for 2022 and 2023, together with statistics on proxy voting for the same period. Table 1 below provides a summary of the engagement activities for the two years.

[6] Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change to mitigate financial risk and to maximize the long-term value of assets.

Table 1: Engagement highlights for 2022 and 2023

Year	Category	OIM	The Consultant
2022	Companies engaged	581	1,138
	Issues and objectives[7] engaged	2,507	4,250
	Objectives for which progress achieved	57%	N/A
	Theme distribution	Environmental 28% Social and Ethical 24% Governance 35% Strategy, Risk and Communication 13%	Environmental 29.6% Social and Ethical 22% Governance 36.1% Strategy, Risk and Communication 12.4%
2023	Companies engaged	569	1,041
	Issues and objectives engaged	2,730	4,272
	Objectives for which progress achieved	52%	N/A
	Theme distribution	Environmental 32.5% Social and Ethical 27.3% Governance 27.1% Strategy, Risk and Communication 13.2%	Environmental 35% Social and Ethical 26% Governance 27% Strategy, Risk and Communication 12%

27. Upon reviewing the engagement reports, OIOS could not determine the effectiveness of the engagement activities or OIM's impact on them. Published to demonstrate success of the engagement conducted during the year, the statistics were mostly output indicators and had no link to any real-world impact, such as reduction of carbon footprint. Similarly, the milestones used by the consultant to measure progress were also output indicators. Furthermore, OIM did not perform spot checks or sample testing to determine whether the claimed progress, i.e., moving up at least one milestone for a specific issue or objective, was credible. Even though no progress was achieved for 43 and 48 per cent of the objectives for 2022 and 2023, respectively, they were not reviewed to determine the root causes and whether the consultant had taken adequate remedial action such as change of engagement method or use of escalation. OIM cited resource limitations and reliance on the consultant through outsourcing as reasons for not verifying the claimed progress and studying unsuccessful engagement.

28. OIOS also noted that the reported engagements were not specifically conducted for OIM. Instead, the consultant "pooled the priorities of like-minded investors and engaged with companies on their behalf." Therefore, there was a risk that the consultant's clients might separately take credit for the same engagement activities and hence collectively overstate the engagement efforts made, especially when they don't disclose the arrangement. As stated in the consultant's 2023 annual report, the total assets of all clients under its advice amounted to $1.4 trillion at the end of 2023, suggesting it had many other clients, and the market value of the 1,041 companies it engaged with during the year accounted for 62 per cent of the value of the Morgan Stanley Capital International All Country World Investable Market Index (MSCI ACWI IMI), which is the base index of OIM's benchmark for equities and widely used by global investors. Those 569 companies supposedly engaged for OIM were a subset of the 1,041 companies and were only identified the following year during reporting as part of OIM's holdings during 2023. Many other clients of the consultant could have invested in the same companies as they are usually the core constituents of the index. Furthermore, the same consultant served as the lead engager through Climate Action 100+ with top emitters in the world, which were already tallied in the number of companies the consultant reportedly engaged for its clients. Therefore, it would constitute another layer of double counting when its clients, including OIM, claim that they participated in the collective engagement through Climate Action 100+.

[7] According to the consultant, an engagement objective is a specific, measurable change defined at the company, and an issue is a topic the consultant has raised with a company in engagement, but where the consultant does not precisely define the outcome it seeks to achieve.

29. OIM outsourced proxy voting to another vendor, but there was no coordination between the two service providers to ensure that inaction by corporate management on engagement would be factored into the voting recommendation. OIM stated in the draft Engagement Policy that it was working to ensure that proxy voting would reflect engagement results by the end of 2024 for 75 focus companies, which included the top emitters in the Fund's portfolio.

30. The peer pension funds reviewed by OIOS rarely relied on a consultant for corporate engagement. Instead, they used direct engagement or a combination of direct engagement and a consultant. In this connection, OIOS noted that as part of OIM's initiative to strengthen integration of ESG factors into investment decision-making process, SIT conducted 40 in-depth ESG reviews with collaboration between SIT and the public equities teams during 2023 and first half of 2024. The teams directly engaged with 17 companies following the reviews. However, OIM has not set any target for direct engagement with portfolio companies, nor did it make plans to phase out the use of the external consultant.

31. OIM stated that the effectiveness of engagements heavily depends on the willingness of corporate management, availability of technology (for instance, for decarbonization) and other factors which are usually out of the control of an investor. OIOS is of the view that OIM needs to reassess and implement measures to improve the effectiveness of its corporate stewardship programme if it continues to designate stewardship as a critical pillar of the Fund's sustainable investing strategy and net-zero strategy.

(3) OIM should reassess and implement measures to improve the effectiveness of its corporate stewardship programme.

OIM accepted recommendation 3.

C. Climate action plan

OIM's reduction of sub-portfolios' greenhouse gas emissions through divestment far exceeded its peers

32. Climate has been at the centre of sustainable development for the world. The institutional investors that are pursuing sustainable investing also set climate change as the most important sustainability issue. They aim to contribute to the achievement of the Paris Agreement by reducing greenhouse gas emissions. Doing so would also reduce the portfolio's climate risks, including physical risks and transition risks. Physical risk relates to damage caused to property, land and infrastructure by extreme weather and natural disasters as well as disruptions of operations. In contrast, transition risk relates to regulatory, legal and market changes associated with a global transition to lower carbon emissions – for example an oil producer's assets can be stranded and its revenue diminish due to the world transitioning to green energy.

33. NZAOA's Target Setting Protocol – Third Edition (January 2023) requires that members must set targets to be reached for three out of four areas: engagement, sub-portfolio emission, transition financing, and sector targets (such as carbon emission reduction for a specific sector in the investment portfolio). OIM chose the first three to set targets, which are also referred to as three pillars of OIM's net-zero strategy.

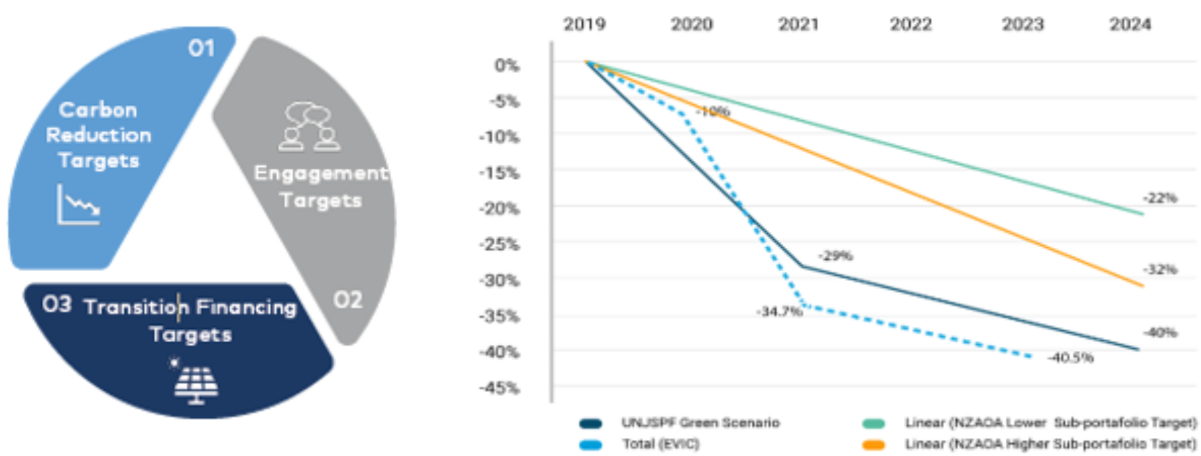
34. Since joining NZAOA, OIM set ambitious scope 1 and 2 emission[8] reduction targets: 29 per cent reduction by 2021, and 40 per cent by 2025 from 2019 levels. The scope of these targets included public equities, corporate bonds and real estate equity funds. Accordingly, OIM divested most of its public equities

[8] The Greenhouse Gas Protocol Corporate Standard classifies a company's GHG emissions into three "scopes". Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

investments in the fossil fuel industry in 2021 except those companies that met the criteria of transitioning companies. OIM also adopted customized benchmarks for public equities and fixed income by excluding more than 700 securities from the investment universe issued by companies with revenues from the entire fossil fuel value chain above the defined thresholds. The index provider monitors and screens the listed companies for OIM using thresholds and their reported revenue data. If a company grew to have revenue from the industry above the threshold, OIM would assess the situation and decide whether to exit the position on a case-by-case basis. The exclusions apply to both internal and external portfolios. OIM also stopped making new investments in private equity and infrastructure funds that invest in fossil fuel projects but did not exit from the existing ones due to illiquidity and difficulty to exit during the investment period.

35. As a result of the divestment and restrictions, the Fund's scope 1 and 2 greenhouse gas emissions of its public equities, fixed income and real estate equity funds were reduced by 32 per cent in 2021 and 39 per cent by the end of 2022. As shown in Figure 3, the reduction far exceeded those set as targets by NZAOA for its members. The Fund achieved the 40 per cent reduction target in 2023.

Figure 3: OIM's net-zero strategy and carbon reduction results through divestments



Note: EVIC refers to Economic Value Including Cash and is defined as the sum of the market capitalization of ordinary shares at fiscal year-end, the market capitalization of preferred shares at fiscal year-end, and the book values of total debt and minorities' interests. EVIC is used by investors, including OIM, to calculate their share of carbon emissions of equity and debt issuers based on the value of their holdings.

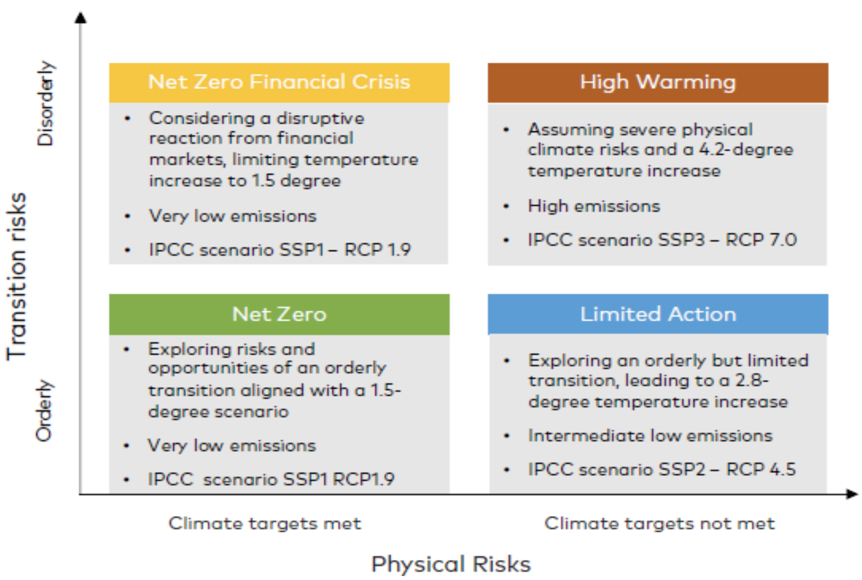
36. In the investment community, there are different views and practices regarding divestment of the fossil fuel sector. Whether and how an investor uses this strategy depends on its unique circumstances, beliefs about climate change, and the perceived pros and cons of divestment. The majority of the peer pension funds reviewed by OIOS did not choose immediate divestment in spite of similar commitment to net zero. Instead, they kept investing in fossil fuel companies and urged them to start decarbonizing their businesses through engagement. Divestment was often used as the last resort when engagement failed, i.e., when no credible de-carbonization actions were taken. OIM stated that "given the strong pressure from policymakers and the civil society regarding climate change risks and greater support from corporates globally, fossil fuels are becoming stranded assets with greatly diminished long-term value." Therefore, the Office believes that "the objective of ensuring the long-term sustainability of UNJSPF investments is no longer compatible with investing in fossil fuels." OIM also stated that it "wants to set the right example in the investment community and send a message to encourage companies to formulate clear, actionable climate change and/or mitigation strategies."

Need to operationalize climate risk management

37. The core objective of the climate strategy of an investor is to mitigate climate risks and take advantage of potential opportunities to enhance its long-term risk-adjusted return. In addition to physical risks and transition risks, climate change can have adverse impact on the macro-economy and financial markets. Divestment of fossil fuel investments and reducing the carbon footprint of the investment portfolio are not adequate for addressing all climate risks. In line with the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD)[9], OIM assessed the Fund's exposure to climate risks across various scenarios in its Asset-Liability Management (ALM) study in 2023 using the services of a consultant.

38. The ALM consultant used four major scenarios to project the expected socio-economic global changes caused by climate change[10], as captured in Figure 4. The main climate scenario OIM used to design the optimal asset allocation and eventually the new strategic asset allocation (SAA) was the "Net-Zero Financial Crisis (NZFC)" which assumed that "investors would suddenly divest the fossil fuel sector to align portfolios to the Paris Agreement goals in the period from 2025 to 2030 and it would have disruptive effects on financial markets with abrupt repricing of financial assets followed by stranded assets and a sentiment shock." Using capital market assumptions (expected risks and returns for various asset classes) under this scenario and its econometrics model, the consultant developed a new SAA for OIM. The major difference between the new and the previous SAA is a reduction of global public equities from 50 to 43 per cent and an increase of global fixed income from 29 to 39 per cent. The consultant also conducted stress testing and concluded that the new SAA would perform better under various climate scenarios.

Figure 4: Climate scenarios used in OIM's 2023 ALM study



39. The ALM study results highly relied on the assumptions and modelling used. The consultant acknowledged there were three types of limitations with its modelling: climate modelling, macro-economic

[9] The Financial Stability Board (FSB) created the task force in 2015 to improve and increase reporting of climate-related financial information. Upon the release of its 2023 status report, which marked the accomplishment of its goals, it was disbanded at the request of the FSB and its work was taken over by the International Financial Reporting Standards (IFRS) Foundation.

[10] The scenarios were based on the five shared pathways used by the International Panel on Climate (IPCC) Sixth Assessment report but differ in terms of responses in policy and technological changes, physical risks, and pricing-in mechanisms.

modelling and financial modelling. In OIOS' view, the assumptions under NZFC – sudden divestment and temperature increase would not exceed 1.5°C – appear to have become unrealistic in light of recent developments. For instance, it is likely that 2024 will end up at least 1.55°C hotter than pre-industrial times according to data from the European Copernicus Climate Change Service[11]. This will not just have implications for the world economy and the Fund's expected performance, but also for OIM's climate risk management at the operational level as the transition risks and physical risks would be vastly different if temperature increase significantly exceeds 1.5°C.

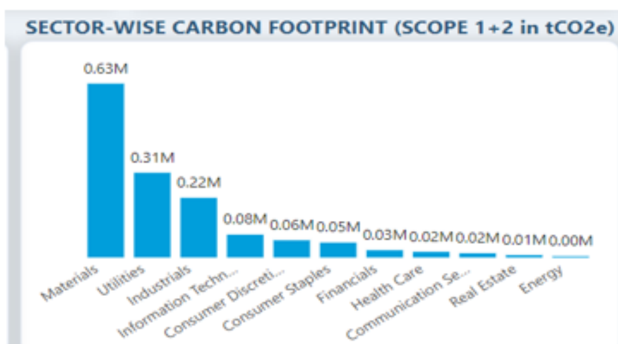
40. Furthermore, despite OIM's description of the methodology used by the ALM consultant in the 2022 TCFD report and on its website as proof of incorporating climate scenarios into climate risk assessment, it is at a macro level that was not translated into or linked to climate risk management at the micro level: i.e., identification, assessment and monitoring of physical risks in particular, say, at the portfolio company, sector, sub-portfolio and asset class levels. The IFRS SDS requires detailed disclosure on this. Also, OIM is yet to incorporate climate-related risks into its existing enterprise-wide risk management policy and practices. OIM was aware of this gap and planned to address it in response to the assessment conducted by the consultant in preparation for the IFRS SDS report.

Need to enrich carbon footprint measures and to conduct attribution analysis

41. On a quarterly basis, SIT generated carbon reports showing the absolute carbon footprint, quarterly change, sector breakdown and top contributing portfolio companies for the regional and overall public equities portfolios. Such reports were circulated internally. Figure 5 provides a snapshot of the carbon footprint of OIM's public equities investments as of 30 September 2024.

Figure 5: UNJSPF carbon footprint of public equities (in metric tons of carbon dioxide equivalent) as of 30 September 2024

Portfolio	Carbon footprint
External	245,953.06
International	120,920.25
Asia Pacific	1,574.89
Europe	7,970.85
North America	115,487.07
Internal	1,190,295.47
Asia Pacific	123,114.61
Emerging Markets	469,573.30
Europe	196,590.43
North America	401,017.13
Total	1,436,248.53



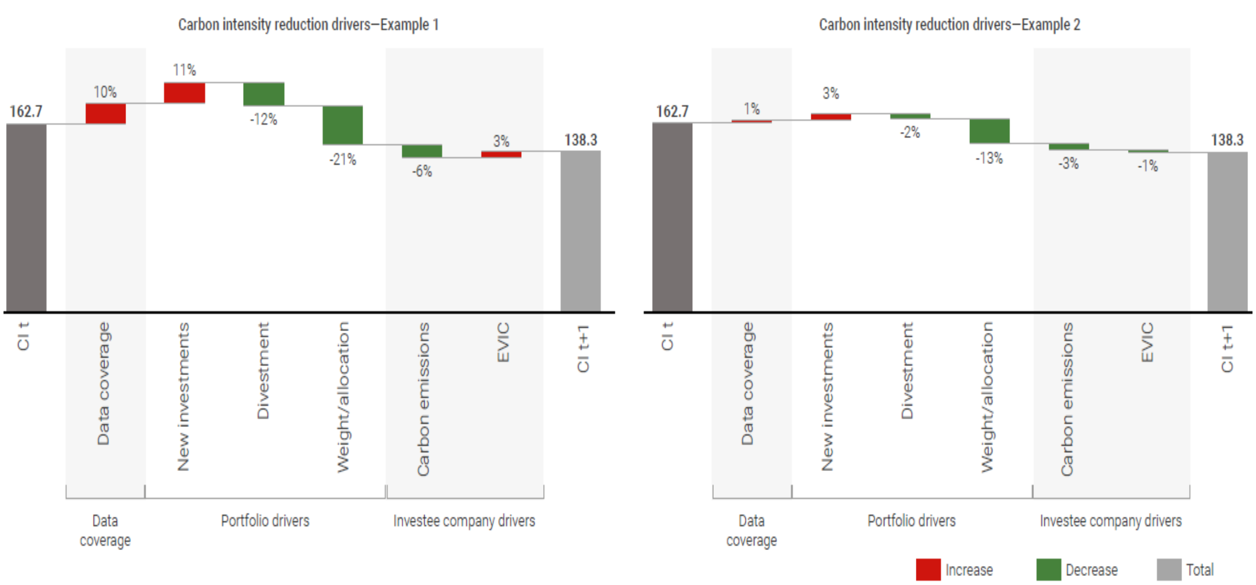
42. Since OIM currently measures Scope 1 and Scope 2 carbon emissions in absolute terms, i.e., metric tons of carbon dioxide equivalent (tCO2e), it is not immediately clear whether the investment portfolio is

[11] https://climate.copernicus.eu/year-2024-set-end-warmest-record

"greening" as it is possible that the total carbon footprint decreased because of changes in the portfolio composition and decarbonization of the investee companies. It is an industry practice to use an intensity measure, calculated by dividing total carbon emission of an investment with the amount invested. Similarly, a company's absolute carbon emissions can fluctuate because of business expansion or contraction and/or change in carbon intensity, calculated by dividing total carbon emissions with total sales. While the absolute emission measure is more intuitive and can be linked to the total emission budget under a climate change scenario, the intensity measures are more suitable for comparing various portfolios, funds and investments of different sizes.

43. Attribution analysis can be used to determine: (i) what factors contributed to the changes in carbon footprint; and (ii) what their relative impact was from one period to another. As OIM's efforts to reduce the carbon emissions of its investment portfolios were focused on divestments and negative screening in the recent past, attribution analysis of carbon footprint variations was not critical. Going forward, however, further reduction will have to mainly come from decarbonization of the portfolio companies and portfolio adjustments by changing the weight of holdings with different carbon intensity. Therefore, carbon footprint attribution analysis will become necessary. In this connection, OIOS notes that NZAOA published a research paper in December 2023 on emission attribution analysis to understand the drivers of investment portfolio decarbonization[12]. The paper discussed the relative pros and cons of the absolute and intensity emission measures and the benefits of performing emission attribution analysis, particularly for net-zero investors. The paper also showcased how it can be done. Figure 6 provides two examples of such attribution analysis from the paper. In OIOS' view, OIM should perform such analysis and include the results in the quarterly carbon footprint reports. Ideally, the investment officers should be able to use it to simulate the impact of adding new positions and changing weights of its holdings on an investment portfolio's carbon footprint so they can make informed decisions, like what they do with risk and return.

Figure 6: Examples of carbon emission attribution analysis from NZAOA using carbon intensity measures



(4)	**OIM should add carbon intensity measures to its carbon footprint reports and perform carbon emission attribution analysis to determine the impact of various factors on the change of carbon footprint of the Fund's investment portfolios from one period to another.**

[12] https://www.unepfi.org/industries/understanding-the-drivers-of-investment-portfolio-decarbonisation/

OIM accepted recommendation 4.

<u>OIM was in the process of strengthening transition financing</u>

44. One way for an investor to mitigate climate change risks while taking advantage of the potential opportunities is to invest in entities that are taking action to decarbonize their business or offering solutions to climate change such as green energy technology. This is referred to as transition financing. Transition financing is one of the three pillars of OIM's climate action plan and it complements the other two – exclusion of fossil fuel companies and engagements.

45. OIM intends to identify and invest in companies that are most effectively managing transition risks and are well positioned for the long term. For this purpose, OIM created a proprietary model to identify within the fossil fuel industry companies that were already transitioning their business models or products. The methodology was described in detail in the Fund's 2022 TCFD report. Using the methodology, SIT prepared and provided a list of "transitioning companies" on a quarterly basis to the investment teams for them to consider investing during the quarterly rebalancing exercise. Based on a review of the methodology and its application using a sample of transition companies identified by SIT, OIOS was of the view that the methodology was sound and correctly applied.

46. As of 30 September 2024, there were 35 companies on the latest list of transitioning companies, and OIM had invested in 26 of them with a total market value of $959 million. Additionally, OIM reported to NZAOA that the Fund invested a total of $3.4 billion in climate solutions[13] across all asset classes and another $897 million in green, social or sustainability-labeled bonds as of 31 December 2023. These bonds were specifically chosen and assessed for their sustainable characteristics, but the equity investments were identified as investments in climate solutions ex post facto, i.e., not originally intended as such.

47. OIM developed its impact investing strategy in 2023, where it identified climate change as one of its four key pillars. In 2024, OIM approved five investment deals with a pure climate theme across various asset classes, committing a total of $330 million (at the time of the audit, capital had been allocated for two, and the remaining three were still being processed internally). These five climate-related investments can be broken down into two categories: three were focused on decarbonization and emissions reduction efforts, and the remaining two targeted climate resilience and transition support.

48. Considering the progress OIM has achieved in transition financing and the fact that NZAOA does not require a specific target to be set for it in either dollar amount or percentage of total assets under management, OIOS did not make a recommendation on transition financing.

D. Communication and reporting

<u>OIM adopted industry reporting standards for sustainability</u>

49. Principle 6 of PRI requires its signatories to report on their activities and progress towards implementing its principles. In 2017, TCFD released climate-related financial disclosure recommendations structured around four thematic areas that represent core elements of how companies operate: governance, strategy, risk management, and metrics and targets. OIM had published two consecutive reports using the TCFD framework for 2021 and 2022.

[13] Climate solutions investments are investments in economic activities considered to contribute to climate change mitigation (including transition enabling) and adaptation, in alignment with existing climate related-sustainability taxonomies and other generally acknowledged climate related frameworks.

50. As the TCFD framework was replaced by IFRS SDS in 2023, OIM decided to publish a report following the new standards for the year. IFRS SDS consists of IFRS S1 and IFRS S2: the former provides a set of disclosure requirements about sustainability-related risks and opportunities entities face over the short, medium and long term, while the latter sets out specific climate-related disclosures and is designed to be used with IFRS S1. For the first reporting year, IFRS SDS includes some transition relief: an entity may elect to follow only IFRS S2 and defer disclosing the full universe of sustainability related information until the second year of application. OIM decided to take advantage of the relief, i.e., to only report in line with S2 for 2023. During the audit, OIM was still preparing the report with the assistance of a consultant.

51. Additionally, OIM has posted reports of its engagement and proxy voting activities for 2022 and 2023 on the UNJSPF website. The publication of these reports and preparation of IFRS SDS report demonstrate OIM's ambition to set an example for the industry in terms of sustainability disclosure. Preparing those reports has also helped OIM identify and fill substantive gaps in sustainable investing. Considering OIM's efforts in following the reporting standards, which represent industry best practice, OIOS did not make additional recommendations.

<u>Communications and reporting need to reflect global and OIM-specific challenges</u>

52. Public communication and reporting on sustainable investing plays an important role in promoting transparency, awareness and buy-in of the sustainability initiatives in the financial industry. Communications and reporting that are not objective or misaligned with reality can expose an organization to the risk of being viewed as or accused of "greenwashing" or "greenhushing". The former refers to a practice used by entities to represent themselves as more sustainable than they truly are, while the latter refers to intentionally downplaying or concealing their sustainability initiatives or ESG efforts from the public to avoid backlash against them. Both practices can be detrimental to sustainability initiatives and the credibility of an entity. Achievement of the objectives of sustainable investing, especially to successfully mitigate the risks of climate change, requires long-term concerted efforts of the public sector, private sector and individual consumers. Over-emphasis of actions and achievements in the corporate world, especially those promoted by the for-profit financial industry without independent assurance, may have a negative impact on public understanding and support for stronger laws, regulations and governmental actions. A research paper[14] published in the scientific journal Nature in 2019 showed that 'quick fix' solutions to address the climate crisis may have a 'pernicious effect' in that they seem to "decrease support for substantive policies by providing false hope that problems can be tackled without imposing considerable costs." Another survey showed that headlines about guarding against climate change-related risks in the financial system, including proofing investment portfolios of transition risks, could lead the readers to mistakenly believe that such efforts were helpful in the fight against climate change itself. Yet another article showed that the ESG ratings (from the vendor used by OIM) mainly measure how well the companies are mitigating ESG risks for themselves, not their impact on the world[15], while their wide use may signal to the public the opposite.

53. OIOS reviewed the public reports and communications published by OIM so far on sustainable investing. Overall, they had a positive and optimistic tone, describing the Fund's ESG strategy, climate action, and enumerating its achievements and accolades. OIM claimed to be an industry leader on multiple occasions, including in a 2024 article posted on the United Nations Intranet iSeek, titled "Six ways UNJSPF is leading the way on sustainable investing[16]," and in another article on the UNJSPF website authored by the ESG index and data provider titled "How UNJSPF is leading the way to net-zero[17]". OIOS understands

[14] https://www.nature.com/articles/s41558-019-0474-0
[15] https://www.bloomberg.com/graphics/2021-what-is-esg-investing-msci-ratings-focus-on-corporate-bottom-line/
[16] https://iseek.un.org/nyc/article/6-ways-unjspf-leading-way-sustainable-investing
[17] https://www.unjspf.org/wp-content/uploads/2023/09/UN-MSCI-CaseStudy-Aug-18.pdf

OIM's ambition to lead the industry by example and the need to celebrate early successes. However, such communications and reporting should be made more balanced, as explained below, to align with best practices and to ensure that readers form a realistic view of the sustainable investing practices of UNJSPF and the financial industry at large.

54. First, the communications and reports should reflect the state of climate change and the failure of the corporate world to curb it. So far, despite commitments made and targets set, the state of climate change appears to be dire. The ESG index and data provider for the Fund has been monitoring the alignment of the world's listed companies with the critical threshold of limiting the rise in average global temperatures to 1.5°C above pre-industrial levels. According to its latest report as of May 2024, only 11 per cent of the listed companies in the MSCI ACWI IMI were aligned with a 1.5°C pathway, another 27 per cent aligned with 2°C, and the rest were either misaligned or strongly misaligned. Collectively, they were on a path to warm the planet by 2.7°C by the end of this century above the pre-industrial levels if they maintain their current level of carbon intensity. It was estimated that the listed companies would deplete their global carbon budget for keeping temperature rise below 1.5°C by 31 October 2026, two months sooner than what the index provider projected in October 2022. The 2023 Emissions Gap report published by the United Nations Environment Programme[18] stated that greenhouse gas emissions must still fall by 28 per cent by 2030 to achieve the Paris Agreement's 2°C pathway, and by 42 per cent for the 1.5°C pathway, highlighting the urgency with which companies and governments must seek to limit and reduce greenhouse gas emissions. Such urgency was highlighted in OIM's internal training, but not in its public reports. Sounding the alarm on climate change would echo and strengthen the Secretary-General's repeated calls for more urgent action by the Member States, which could in turn increase the odds of OIM achieving its own reduction targets, including net zero.

55. Second, like some peer pension funds have already done, OIM needs to highlight some inherent challenges in sustainable investing, including certain trade-off relationships and limitations. For example, while divestment and exclusion of fossil fuel companies led to fast reduction of carbon footprint of the investment portfolio, the exercise will not only reduce the opportunities to exert influence as a shareholder on related companies to create positive real-world change, but also make it harder for the Fund to further reduce the carbon footprint of its investment portfolio significantly, especially in the short run. This trade-off also applies to other sustainability themes such as human rights: by tightening the selection criteria, potential investment opportunities would be excluded, resulting in loss of opportunity to achieve higher real-world impact. Besides, OIM faces the challenge that the weight of its holdings in the total market capitalization or outstanding debt of a company cannot exceed and is usually much lower than five per cent, further restricting its leverage over the portfolio companies or bond issuers during engagement and proxy voting. As noted in the New Engagement Policy (draft), OIM expected the external managers for small-capitalization equities "to clearly state the benefits and limitations of their climate engagement programme(s) and/or stewardship activities and how the limitations are addressed via complementary work streams, including how they leverage public discourse." OIM was yet to do the same.

56. Also, OIM needs to prevent misinterpretation of the performance figures in relation to its ESG programme and the possible unrealistic expectation that sustainable investing will always result in superior returns. OIM has been publishing on its website the cumulative performance of its ESG customized benchmarks for public equities and fixed income and compared them to those of the plain non-ESG customized indexes. For example, the webpage describing its exclusions of fossil fuel industry as of the end of August 2024 stated: "Since June 1, 2022[19], the cumulative return of the public equities customized benchmark was 35 per cent, compared to 33.5 per cent for the corresponding plain MSCI benchmark…" Since no explanation is offered, the performance variance between the two and the context may lead the

[18] https://www.unep.org/resources/emissions-gap-report-2023
[19] The date when the new customized benchmark for public equities was adopted.

reader to believe that the customized benchmark will always generate superior returns, or one can justify the exclusions citing the outperformance of the customized benchmark during the period. The consideration of ESG factors is to enhance the long-term risk-adjusted return of the Fund. It is too early to suggest success using short-term outperformance of a customized benchmark.

57. However, when the divestment of fossil fuel sector was discussed during the 78th session of the Pension Board in 2024, OIM stated that it "was not only avoiding losses but also generating more revenue by investing in other areas" based on the short-term outperformance of the customized index for public equities. In fact, if a different period was used, the results could reverse. For instance, as of 31 August 2024, the three-year accumulative return of MSCI ACWI IMI was 16.4 per cent while that of the same index with tobacco and fossil fuel excluded was 14.5 per cent. This was mainly due to the outperformance of the stocks in the energy sector during the period when developed markets broadly experienced high inflation. Similar level of inflation can happen in the future, and the fossil fuel sector can outperform the broad market again. Furthermore, since the implementation of the customized indexes for the investment grade corporate bonds portfolio and for the high yield fixed income portfolio in October 2022 and February 2024, respectively, the customized indexes underperformed the corresponding plain indexes. Therefore, OIOS is of the opinion that OIM should add a note to the published performance figures to caution against misinterpretation.

(5) OIM should ensure that its public communications and reporting: (i) reflect the state of climate change and the need for more urgent and effective action to lower greenhouse gas emissions; (ii) capture the general and unique challenges in sustainable investing; and (iii) add appropriate explanatory notes when the performance of ESG-customized benchmarks is compared with that of the non-ESG-customized indexes to avoid misinterpretation.

OIM accepted recommendation 5.

Reporting on engagement activities needed to be OIM-focused

58. As noted above, OIM published on the UNJSPF website two summary reports on engagement activities for 2022 and 2023. The engagement consultant also prepared a more detailed report for OIM and other clients on annual basis, and OIM posted the 2023 report on its website to meet a PRI requirement on stewardship before preparing the one with just highlights. In addition, the 2021 and 2022 TCFD reports[20] covered OIM's engagement activities conducted by the service provider.

59. The 2023 detailed report for UNJSPF was very similar to the annual report of the consultant for the same year in both content and form. The two reports were identical except for the high-level statistics in the UNJSPF report which were based on the Fund's holdings in 2023 and hence different from those in the consultant's annual report. While the section on voting overview was removed from the consultant's overall annual report to prepare the UNJSPF report (because the Fund did not purchase the proxy voting service from the consultant), the section on updates to the consultant's voting policies and discussion of its voting in different countries was still included without modification. The introduction and foreword in the consultant's annual report was carried to the UNJSPF report verbatim. Throughout the two reports, the consultant mentioned many companies they engaged with for various themes. OIOS sampled 33 of them and found that OIM did not have any investment in 10, and only 4 holdings in the remaining 23 exceeded 0.1 per cent of the Fund's portfolio value at the end of 2023.

60. To offer a case study of successful engagement, the consultant described in detail its engagement with one of the largest shipping companies in the world on climate change and the actions the company

[20] The 2021 TCFD report covered OIM's engagement activities of 2020 because those of 2021 were not made available by the consultant by the time the TCFD was published. The engagement activities of 2022 were captured in the 2022 TCFD report.

took as well as the next steps the consultant planned to take in further engagement with the company. The same descriptions were given in OIM's detailed engagement report of 2023. An abstract of the case study was included in OIM's summary engagement report for 2023. However, while the company was one of the top 100 emitters of greenhouse gas in the world, OIM only had $430,105 invested in the company's stocks as of the end of 2023, and the company was never listed as a top emitter in OIM's portfolios in 2023, including the region where the company is located.

61. More importantly, some weapon makers and fossil fuel companies excluded from the Fund's investments were given as examples of successful engagements, not just in the detailed report of 2023 prepared by the consultant for UNJSPF, but also in the engagement highlights in the 2022 TCFD report prepared by OIM staff. As these reports were all posted on the Fund's website, they may not just cause confusion but also damage the Organization's reputation. When OIOS brought this to OIM's attention during the audit, OIM immediately took action to remove the detailed 2023 engagement report from its website. OIM needs to ensure that only engagement results relevant to the Fund's investments are published in its future engagement highlights and other public reports such as IFRS SDS report.

(6) OIM should ensure that its reports on engagement activities concerning sustainable investing focus on the Fund's investments and priorities to avoid potential confusion or controversy.

OIM accepted recommendation 6.

IV. ACKNOWLEDGEMENT

62. 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

ANNEX I

STATUS OF AUDIT RECOMMENDATIONS

Audit of sustainable investing in the Office of Investment Management of the United Nations Joint Staff Pension Fund

Rec. no.	Recommendation	Critical[21]/ Important[22]	C/ O[23]	Actions needed to close recommendation	Implementation date[24]
1	OIM should develop annual work plans with specific actions and performance metrics to enhance the implementation of its ESG integration plan.	Important	O	Receipt of annual work plans with specific actions and performance metrics for improving ESG integration.	31 March 2025
2	OIM should implement an action plan to strengthen its ESG monitoring of private markets investments.	Important	O	Receipt of a systematic ESG monitoring plan for private markets investments.	31 December 2026
3	OIM should reassess and implement measures to improve the effectiveness of its corporate stewardship programme.	Important	O	Receipt of evidence showing measures taken to address the weaknesses of OIM's current stewardship programme and to improve its overall effectiveness.	30 June 2025
4	OIM should add carbon intensity measures to its carbon footprint reports and perform carbon emission attribution analysis to determine the impact of various factors on the change of carbon footprint of the Fund's investment portfolios from one period to another.	Important	O	Receipt of carbon footprint reports with carbon intensity measures and emission attribution analysis incorporated.	31 March 2025
5	OIM should ensure that its public communications and reporting: (i) reflect the state of climate change and the need for more urgent and effective action to lower greenhouse gas emissions; (ii) capture the general and unique challenges in sustainable investing; and (iii) add appropriate explanatory notes when the performance of ESG-customized benchmarks is compared with that of the non-ESG-customized indexes to avoid misinterpretation.	Important	O	Receipt of evidence showing that OIM's public communication and reporting on sustainable investing: have incorporated the latest state of climate change and the need for more urgent and effective actions; captured the general and unique challenges; and added appropriate explanatory notes when comparing the performance of ESG-customized benchmarks with non-customized indexes.	31 March 2025

[21] 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.
[22] 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.
[23] Please note the value C denotes closed recommendations whereas O refers to open recommendations.
[24] Date provided by OIM in response to recommendations.

ANNEX I

STATUS OF AUDIT RECOMMENDATIONS

Audit of sustainable investing in the Office of Investment Management of the United Nations Joint Staff Pension Fund

6	OIM should ensure that its reports on engagement activities concerning sustainable investing focus on the Fund's investments and priorities to avoid potential confusion or controversy.	Important	O	Receipt of evidence showing published engagement results focusing on OIM's investments and priorities.	30 September 2025

APPENDIX I

Management Response

UNJSPF CCPPNU

UNITED NATIONS JOINT STAFF PENSION FUND
CAISSE COMMUNE DES PENSIONS DU PERSONNEL DES NATIONS UNIES

INTEROFFICE MEMORANDUM MEMORANDUM INTERIEUR

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

DATE: December 30, 2024

Reference: OIOS-2024-02361

FROM: Mr. Pedro Guazo, Representative of the Secretary-General for the Investments of the UNJSPF

Pedro Guazo (Dec 30, 2024 11:32 EST)

-and

Mr. Toru Shindo, Chief Investment Officer, Office of Investment Management

Toru Shindo

Toru Shindo (Dec 30, 2024 11:35 EST)

-and-

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

Jose Antonio Nunez Poblete

Subject: Draft report of an audit of sustainable investing in the Office of Investment Management of the United Nations Joint Staff Pension Fund (Assignment No. AS-2022-801-03)

Dear Colleagues:

Please see enclosed the supporting documentation relating to the audit recommendations listed below.

1. OIM acknowledges receipt of the draft report of an audit of sustainable investing in the Office of Investment Management of the United Nations Joint Staff Pension Fund (Assignment No. AS-2022-801-03).

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 -Audit recommendations) including detailed responses and comments to the recommendations related to OIM.

c.c.
Guillaume Compeyron, Investment Officer
Maria Tsimboukis, Senior Compliance Officer

APPENDIX I

Management Response

Audit of sustainable investing 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 develop annual work plans with specific actions and performance metrics to enhance the implementation of its ESG integration plan.	Important	Yes	Investment Officer	End Q1 2025 (with progress shared with OIOS during Q1)	
2	OIM should implement an action plan to strengthen its ESG monitoring of private markets investments.	Important	Yes	Chief Risk and Compliance Officer/Risk Officer – Private Markets	End Q4 2026	Part of a larger project that entails monitoring of Private Markets Investments
3	OIM should reassess and implement measures to improve the effectiveness of its corporate stewardship programme.	Important	Yes	Associate Investment Officer	End Q2 2025	
4	OIM should add carbon intensity measures to its carbon footprint reports and perform carbon emission attribution analysis to determine the impact of various factors on the change of carbon footprint of the Fund’s investment portfolios from one period to another.	Important	Yes	Investment Officer	End Q1 2025	
5	OIM should ensure that its public communications and reporting: (i) reflect the state of climate change and the need for more urgent and effective action to lower greenhouse gas emissions; (ii) capture the general and unique challenges in sustainable investing; and (iii) add appropriate explanatory notes when the performance of ESG-customized benchmarks is compared with that of the non-ESG-customized indexes to avoid misinterpretation.	Important	Yes	Investment Officer (iii) Risk Officer-Performance	(i) Publication of ISSB report in 2024 – to be shared with OIOS (ii) Q1 2025 (iii) Q1 2025	(i) Details to be provided in the next ISSB report (ii) Work in progress (update language website) (iii) Work in progress (disclaimer pending review)

[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.

APPENDIX I

Management Response

Audit of sustainable investing 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
6	OIM should ensure that its reports on engagement activities concerning sustainable investing focus on the Fund's investments and priorities to avoid potential confusion or controversy.	Important	Yes	Associate Investment Officer	End Q3 2025	