

# **WORLD TRADE ORGANIZATION**

RESTRICTED

**WT/GC/W/426**  
27 November 2000

(00-5200)

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**General Council**  
**7 and 8 December**

## **WTO PENSION PLAN MANAGEMENT BOARD**

### **ANNUAL REPORT<sup>1</sup>**

**1999**

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<sup>1</sup> This Annual Report is published in accordance with Article 5 of the Regulations of the Plan.

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## **INTRODUCTION**

1. The WTO Pension Plan was established on 1 January 1999 following the decision by the General Council on 16 October 1998 (WT/L/282) to terminate the membership of ICITO in the United Nations Joint Staff Pension Fund on 31 December 1998 and to adopt the Regulations and Administrative Rules of the Plan.
2. The Management Board of the Plan was duly constituted by the General Council in accordance with Article 4 of the Plan Regulations on 26 March 1999.
3. The present report for the period up to 31 December 1999 has been prepared by the Management Board in accordance with Article 5 of the Regulations of the Plan for presentation to the General Council and to the Plan participants. The Management Board will ensure that future annual reports are made available in a more timely manner. Individual statements of account will be made available to all participants together with the Annual Report.

## **STRUCTURE OF THE PENSION PLAN**

4. (a) Management Board

Ambassador Kamel Morjane, Chairman			
Amb. Anthony Hill <sup>2</sup>	Members elected by the General Council	Mr. Jacques Chabert	Members appointed by the Director-General
Mr. Mark Linscott		Mr. Hector Millan	
Mr. Michael Stone		Mr. Anthony Mistri	
Mr. Peter van der Gaast		Mr. Paul Rolian	
Mr. Hakki Akil	Alternates elected by the General Council	Ms. Monette David	Alternates appointed by the Director-General
Mr. Andrew Johnston		Mr. Zdenek Drabek	
Mr. Patrick Krappie		Mr. Jean-Pierre Lapalme	
Ms. Laurence Wiedmer		Mr. Jan-Eirik Sørensen	

- (b) Secretary

R. Luther

- Support services

J.-P. Helary  
C. Dresti

- (c) Consulting Actuary

Richard Leblond (Prasa Hewitt S.A.) (pending completion of a competition bidding procedure for this position)

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<sup>2</sup> Resigned on 27 September 1999.

(d) External Auditor

Mr. Ad J.E. Havermans, Member of the Board of the Netherlands Court of Audit

(e) Other Advisers

ECOFIN Investment Consulting AG (for investment matters)  
Lenz & Staehelin (for legal matters)

5. An organizational chart is reproduced in Annex 1.

## **MEETINGS OF THE MANAGEMENT BOARD**

6. The Management Board held eleven meetings in 1999. The agendas comprised several recurring items, including the investment strategy for the Plan, the selection of a global custodian and fund managers, the draft rules of procedure, the selection of a consulting actuary and the outsourcing of the Plan's administrative services. These items are dealt with in greater detail below.
7. Regular progress reports on the work of the Management Board were made available both to the participants and to the WTO Members.

## **Investment Strategy**

8. Prior to the establishment of the Management Board and with a view to expediting the launch of the investment strategy, a joint internal working group conducted a search among firms specializing in the provision of investment advisory services. As a result of that search, ECOFIN, a consulting firm based in Zürich, was selected to advise on the development of an investment strategy for the Plan.
9. The Management Board subsequently determined the investment strategy for the Plan using advice provided by ECOFIN. The objective was to have an asset allocation which would fund the liabilities of the Plan with a balance being drawn between maximising returns on the Plan's assets and maintaining a reasonable level of risk. A stochastic study of the assets and liabilities of the Plan and the different investment strategies played an important role in the Board's deliberations. That study was based on the premise that the Plan should achieve a long-term rate of return of 3.5%, net of price inflation, consistent with the assumptions on which the establishment and contribution rates of a scheme had been assessed.
10. The asset-liability study demonstrated the impact of liabilities for the pensioners having been retained by the UNJSPF. The Plan is expected to enjoy greater freedom in its investment strategy over the medium term. Its contributions are expected to exceed benefit payments over that period. The study also concluded that the objectives could be enhanced by investing in foreign as well as Swiss assets. The Board decided the following breakdown of assets would be appropriate:

0%	-	15%	in Swiss bonds
15%	-	20%	in foreign bonds
10%	-	15%	in Swiss equities
50%	-	70%	in foreign equities

11. The Management Board decided to adopt the following investment strategy which will be reviewed at regular intervals:

	<b>Bonds CH</b>	<b>Bonds Global</b>	<b>Equities CH</b>	<b>Equities Global including Europe</b>	<b>Equities Europe</b>
<b>Relative allocation</b>	16%	16%	13%	42%	13%
<b>Absolute allocation (in million CHF)</b>	25	25	20	65	20
<b>Active mandate</b>	-	-	-	2	-
<b>Passive mandate</b>	1	1	1	-	1

### **Selection of Global Custodian and Fund Managers**

12. The Management Board approved a competitive tendering procedure for the selection of, on the one hand, the global custodian responsible for the centralized safekeeping of the assets and execution of transactions and, on the other hand, the passive<sup>3</sup> and active<sup>4</sup> fund managers to take charge of the portfolios listed in paragraph 10, above.
13. The Northern Trust Company was selected as a candidate for the position of global custodian subject to the negotiation of a satisfactory contract. Those negotiations were entrusted to a negotiating team designated by the Management Board.<sup>5</sup> The team sought expert legal advice on specific issues arising in the course of these negotiations.
14. Barclays Global Investors (BGI), a leader in passive fund management, was selected as the manager of four passive portfolios with a total initial value of SFR 90 million broken down as follows:
- Swiss bonds (SFR 25 million)
  - global bonds ex-Switzerland (SFR 25 million)
  - Swiss equities (SFR 20 million)
  - European equities ex-Switzerland (SFR 20 million).
15. The negotiation of the contract with BGI was completed and the four passive portfolios launched by the end of August 1999.
16. Again as a result of a competitive tendering process, ING Investment Management and Wellington Management International were selected as the managers of two active portfolios comprising global equities ex-Switzerland, each for an initial value of SFR 32.5 million.

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<sup>3</sup> A "passive" fund manager manages a portfolio by linking the investments to a given index so that the portfolio value moves with that index.

<sup>4</sup> An "active" fund manager manages a portfolio by selecting investments in a manner designed to achieve outperformance of a benchmark over time.

<sup>5</sup> These negotiations were successfully completed and the global custody and active mandates launched on 19 April 2000.

17. Contract negotiations with the custodian and active managers were still in progress at the end of 1999 (see footnote 5).

### **Management of the Assets and Performance**

18. The transfer of the proportionate share of the total assets of the United Nations Joint Staff Pension Fund payable to the WTO following the withdrawal of ICITO from the Fund on 31 December 1998 took place in three stages.
19. A first payment of US\$ 93.6 million was received on 14 January 1999, followed by further payments of US\$ 11.5 million and US\$ 13900 on 14 August 1999 and 22 February 2000, respectively. The total assets recovered from the UNJSPF in respect of the 435 participants who opted to transfer their accumulated rights to the WTO Pension Plan thus amounted to US\$ 105.1 million.
20. Pending the definition and launching of the investment strategy as described above, the assets were held on short-term deposit in Euro, Swiss francs and United States dollars. The interest rate ranged from 0.77 per cent to 1.19 per cent for the Swiss franc, from 2.63 per cent to 3.05 per cent for the Euro and from 4.88 per cent to 5.82 per cent for the United States dollar.
21. Accumulated contributions were also held initially on short-term deposit and then swept regularly into the BGI passive mandates once these had been set up at the end of August 1999.
22. The performance of the BGI passive portfolios over the period ending 31 December 1999 may be summarized as follows:

<b>Investment category</b>	<b>Benchmark - BGI</b>	<b>Annualized Performance in SFR<sup>6</sup></b>
Swiss bonds	Swiss domestic bond index - BGI Swiss bond index fund	- 0.34% + 0.04%
Global bonds ex-Switzerland	Lehmann Brothers Government Bond Index/Non-U.S. World Government Bond Index - BGI global bond ex-Switzerland fund	+ 6.01%  + 5.74%
Swiss equities	MSCI Switzerland - BGI Swiss equity index fund	+ 8.75% + 8.30%
European equities ex-Switzerland	MSCI Europe ex-Switzerland - BGI Europe ex-Switzerland index fund	+ 24.61% + 24.24%

23. The Plan achieved a real rate of return of 3.62% in 1999, to be compared with the long-term target of 3.5% quoted in paragraph 9, above.

### **Rules of Procedure**

24. Article 5(c) of the Regulations of the Pension Plan states that the duties and authority of the Management Board as well as rules for the auditing of accounts shall be laid down in rules of procedure which shall be approved by the General Council.
25. The Management Board discussed a set of draft rules of procedure at four separate meetings in 1999. Further consideration of the matter was postponed pending finalization of the investment strategy and other, more urgent, matters.

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<sup>6</sup> Figures provided by BGI.

### **Selection of a Consulting Actuary**

26. The Management Board decided to initiate a competitive tendering process for the selection of a consulting actuary, as required under Article 7 of the Regulations of the Pension Plan. Terms of reference were drawn up and an advertisement placed in the press. The nine firms replying were invited to submit detailed bids which were subsequently examined by a working group consisting of members of the Management Board. A short list of three firms was invited to make presentations to the Board in 2000. Pending a final decision on the choice of actuary, Mr. Richard Leblond of Prasa Hewitt S.A., who had previously been advising the WTO, acted as the consulting actuary of the Pension Plan.<sup>7</sup>

### **Outsourcing of the Pension Plan's Administrative Services**

27. The Management Board decided to examine the feasibility of outsourcing the administrative services to be provided to the Plan. These services include the maintenance of individual, historized records, the calculation of benefits and estimates, the maintenance of accounts and the monthly downloading to the WTO of a complete database in electronic format. The Management Board agreed that it was essential to maintain an in-house service so that a participant or beneficiary could at any time have full and immediate access through the Secretary to his or her pension record. It was also agreed that the confidentiality of the records should not be compromised by any decision to outsource those services.
28. A call for tenders was issued in the course of 1999 to which twelve firms responded. The analysis of those replies was still in progress at the end of the year.<sup>8</sup>

### **PARTICIPATION IN THE PENSION PLAN**

29. The following table shows the trends in the numbers of participants in the Pension Plan in the course of 1999:

#### **Participants in the Pension Plan in 1999**

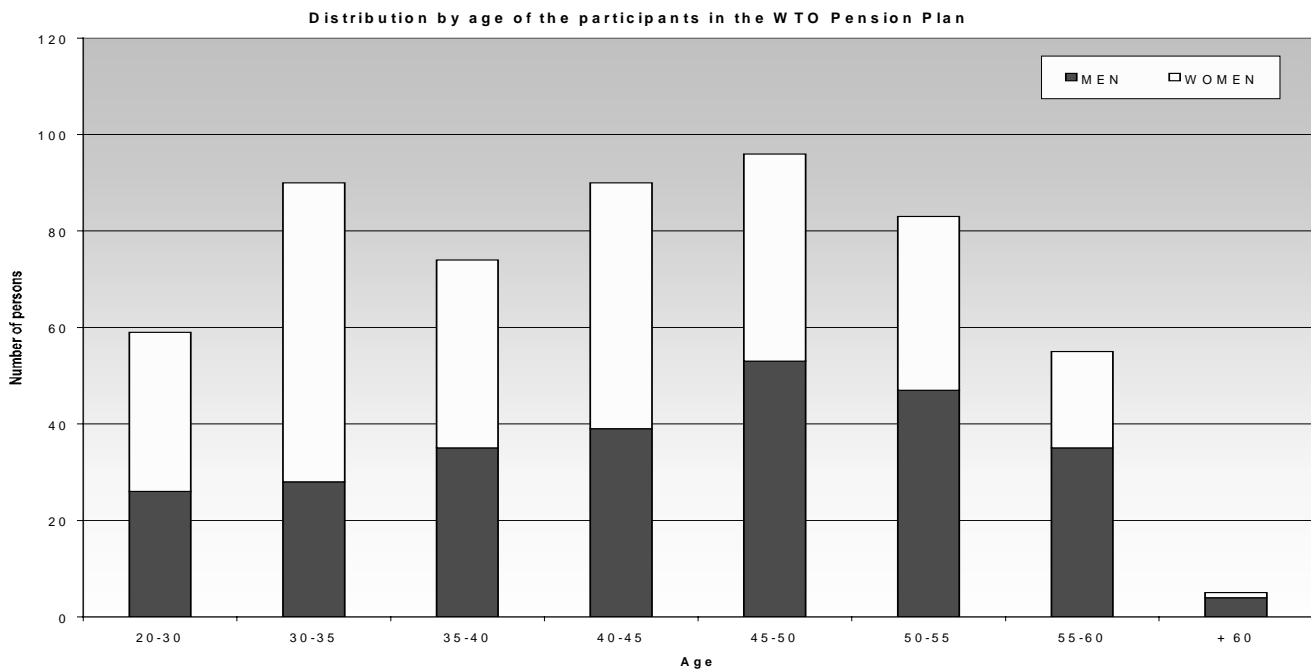
<b>Total number on 1 January 1999</b>	<b>509</b>
Movements in 1999	
- entries	63
- separations	20
<b>Total number on 31 December 1999</b>	<b>552</b>
Breakdown of separations in 1999	
- retirement	1
- early retirement	3
- withdrawal settlement	13
- deferment of decision	3

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<sup>7</sup> William M. Mercer S.A. was subsequently selected as the consulting actuary, subject to the negotiation of a satisfactory contract.

<sup>8</sup> A final decision has not yet been taken on the outsourcing of administrative services.

The average age of the participants in the Pension Plan was 44 years 3 months for men and 42 years 7 months for women on 31 December 1999. The age distribution is shown in the following graph:



### ACCOUNTS

30. Pursuant to Article 15(a) of the Regulations of the Pension Plan, the unit of account of the Pension Plan is the Swiss franc. For practical reasons, the current United Nations operational rate of exchange is used for the conversion of other currencies into the Swiss franc.
31. The accounting year is 1 January to 31 December.
32. Unrealized exchange rate gains and losses are placed in the currency revaluation reserve fund.
33. The value of securities recorded in the accounts corresponds to the lower of the purchase price or market value.
34. The income and expenditure statement for the period 1.1.1999 - 31.12.1999 and surplus account as at 31.12.1999 are reproduced in Annexes 2 and 3, respectively.
35. The balance sheet as at 31.12.1999 is reproduced in Annex 4.
36. The source and application of funds for the period 1.1.1999 - 31.12.1999 is reproduced in Annex 5.
37. A glossary of terms to facilitate an understanding of the tables is reproduced in Annex 6.



**OPINION OF THE EXTERNAL AUDITOR ON THE ACCOUNTS OF THE WTO PENSION PLAN  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 1999<sup>9</sup>**

I have examined the appended Financial Statements of the WTO Pension Plan for the year ended 31 December 1999. The examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as considered necessary in the circumstances. As a result of the examination, the opinion is given that these statements present fairly the financial position of the WTO Pension Plan as at 31 December 1999 and the operations for 1999.

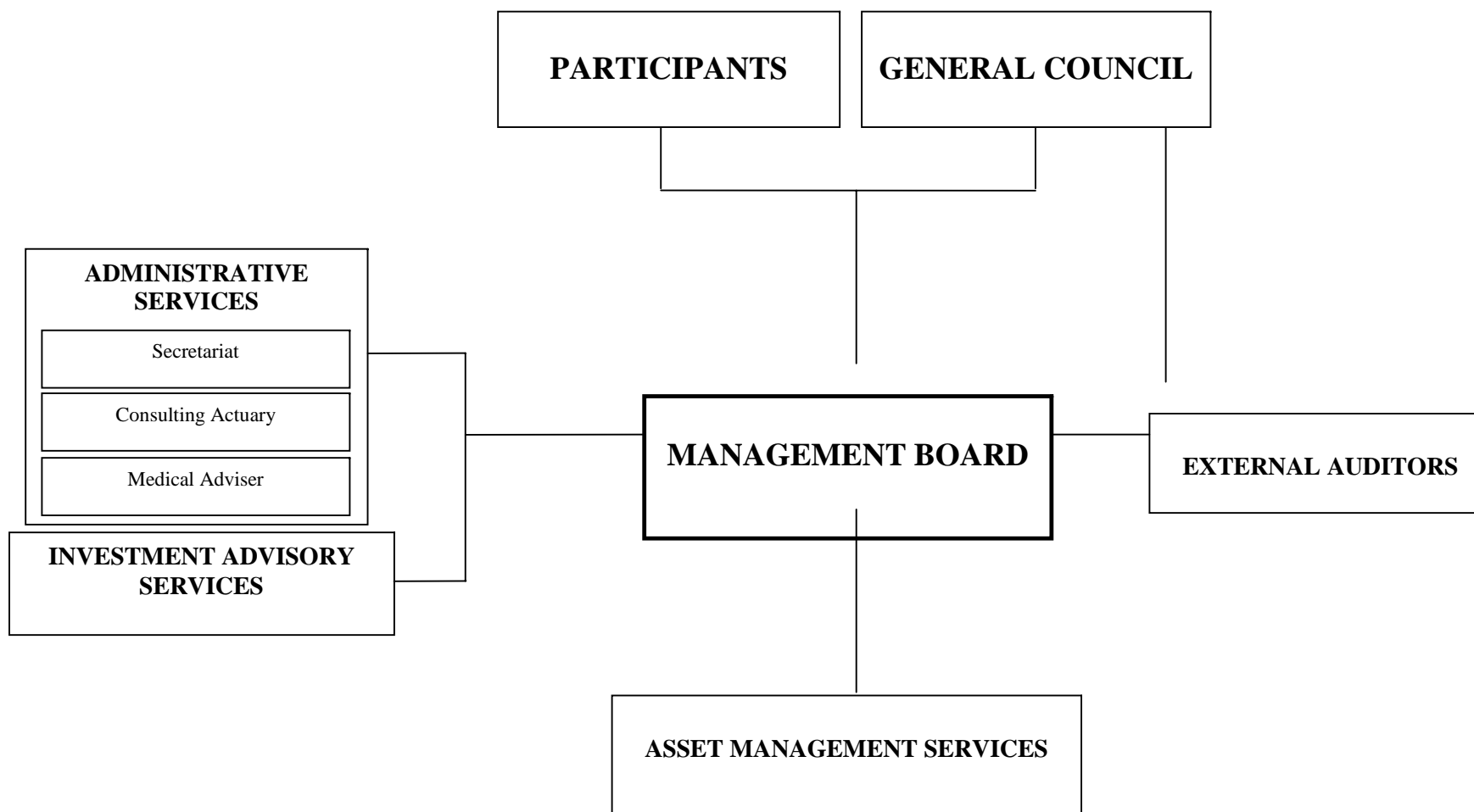
14 November 2000  
Ad J.E. Havermans  
Member of the Board of the Netherlands Court of Audit

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<sup>9</sup> The report of the External Auditor on the accounts of the WTO Pension Plan for the year ended 31 December 1999 is attached as Annex 7.

Annex 1

STRUCTURE OF THE WTO PENSION PLAN



## Annex 2

### Income and Expenditure Statement

for the period

1.1.1999 - 31.12.1999

(expressed in Swiss francs)

#### Expenditure

#### Income

#### Benefits

##### Lump sum

Withdrawal settlement - Art 27 313,299

Commutation - Art 24( c) & Art 25( c) 812,408

1,125,707

##### Periodic benefits

Retirement benefit - Art 24 15,304

Early retirement benefit - Art 25 93,132

108,436

#### Investment and Other Administrative Expenses

- Bank charges 653

- Audit fees 29,000

- Management fees 35,209

- Fees for investment advice 145,349

- Actuarial expenses 39,432

- Administrative costs 5,749

255,392

Excess income over expenditure 26,165,457

27,654,992

#### Contributions

Participants 5,189,136

Organization 10,378,271

15,567,407

#### Investment Income

Interest on current accounts 4,873

Interest on deposit accounts 3,431,594

Income on pooled trust funds 1,493,113

Foreign exchange difference 732

Unrealized exchange rate gains 7,157,273

12,087,585

27,654,992

**Annex 3**

**Surplus Account  
as at  
31.12.1999**

(expressed in Swiss francs)

**Debit**

**Credit**

Provision for currency revaluation	7,157,273
Surplus 1999	19,008,184
	<u>26,165,457</u>

Excess income over expenditure	26,165,457
	<u>26,165,457</u>

## Annex 4

### Balance Sheet

as at

**31.12.1999**

(expressed in Swiss francs)

#### Assets

#### Liabilities

Securities	101,439,036	
Deposit	67,902,618	
Current accounts	<u>1,433,679</u>	
		170,775,333
<b>Current assets</b>		
Withholding taxes to be recovered	250,350	
Receivable from the UNJSPF	22,101	
Accrued interest	682,856	
Contributions receivable	<u>92,898</u>	
		1,048,205
		<u><b>171,823,538</b></u>

Capital 14.1.1999 (see Annex 5)		145,495,959
<b>Current liabilities</b>		
Accrued expenses	162,122	
Currency revaluation reserve fund	<u>7,157,273</u>	
		7,319,395
Surplus 1999		19,008,184
		<u><b>171,823,538</b></u>

<b>Annex 5</b>		
<b>Source and Application of Funds</b> <b>for the period</b> <b>1.1.1999 - 31.12.1999</b> (expressed in Swiss francs)		
<b>Source</b>		
Funds as at 14.1.1999 <sup>1</sup>	128,286,189	
Receivable from UNJSPF	<u>17,209,770</u>	
	145,495,959	
Receipt of contributions	15,567,407	
Return on investments	4,930,312	
Increase in current liabilities	<u>7,319,395</u>	
		173,313,073
less:		
<b>Application</b>		
Settlement of benefits	1,234,143	
1999 Expenditure	<u>255,392</u>	
		1,489,535
Funds as at 31.12.1999		<u><u>171,823,538</u></u>

<sup>1</sup> See paragraph 19 of the Annual Report

**Annex 6**

**GLOSSARY OF TERMS**

**Accrued expenses** includes benefits due and expenses incurred but not paid in the current financial year.

**Accrued interest** refers to interest earned on deposit accounts.

**Actuarial expenses** includes expenses charged by the consulting actuary for the provision of actuarial services.

**Administrative costs** includes costs incurred in the general administration of the Pension Plan.

**Audit fees** includes fees charged by the External Auditor in connection with the audit of the 1999 accounts.

**Contributions receivable** refers to contributions due in respect of contributory service in 1999 but received after 31.12.1999.

**Fees for investment advice** includes fees paid to external advisers for assistance with respect to the establishment of the investment strategy.

**Foreign exchange difference** refers to a realized exchange rate gain.

**Income on pooled trust funds** refers to investment income from the BGI passive mandates.

**Management fees** includes fees paid to fund managers for the management of WTO portfolios.

**Receivable from the UNJSPF** refers to assets to be transferred from the UNJSPF.

**Withholding taxes to be recovered** includes amounts of withholding tax levied by the Swiss authorities and subject to recovery after 31.12.1999.

**Annex 7**

**REPORT OF THE EXTERNAL AUDITOR ON THE ACCOUNTS OF THE WTO PENSION PLAN  
FOR THE YEAR ENDED 31 DECEMBER 1999**

**GENERAL**

1. The WTO Pension Plan was established on 1 January 1999 by withdrawing from the United Nations Joint Staff Pension Fund (UNJSPF). The starting capital of the Pension Plan was formed by the payment of the UNJSPF to the Pension Plan of US \$ 104 735 145.

**FINANCIAL MANAGEMENT**

2. Rules of procedure

In Article 5 (c) of the Regulations of the WTO Pension Plan it is mentioned that the duties and authority of the Management Board of the Pension Plan as well as rules for the auditing of accounts shall be laid down in Rules of procedure which shall be approved by the General Council of the WTO. In 1999 the Management Board discussed drafts of these rules. At its twelfth meeting on 17 February 2000, the Management Board decided to postpone further discussion of the Rules of procedure until the contracts with the global custodian and active investment managers had been finalized. As these contracts have been realised in April 2000, it is recommended to give attention to the Rules of procedure again and present a final version to be approved by the General Council.

3. Attestation de vita

In 1999 there was only a small number of beneficiaries in the Pension Plan. This number certainly will increase in future. To be sure that payments to beneficiaries are regular, it is necessary to develop inter alia a system of Attestation de vita by which life certificates can be received.

4. Income 1999

The Management Board decided to appoint external investment managers to implement the investment strategy of the Plan. The first one, Barclays Global Investors, USA, was appointed in August 1999. The other two, Wellington Management Company, USA and ING Asset Management, the Netherlands were not appointed until April 2000. As a consequence, the Pension Plan invested its assets during 1999 largely in deposit accounts. At the end of 1999 about 40 per cent of the assets was formed by current and deposit accounts. The average yield of the deposit accounts was about 3 per cent (annual rate between minimum 0.79 and maximum 5.82%). This had an unfavourable influence on the performance of the Plan as a whole in 1999. Nevertheless, the real rate of return for 1999 was above the target of 3.5%. It is mentioned that meanwhile the situation has changed after appointing the other two investors in April 2000.

5. Operating costs

Part of the operating costs is formed by the salaries of the staff involved in managing the Plan and by office and related costs. Until now these costs have been carried by the Secretariat of the WTO. As basically these costs are costs of the Pension Plan, we would advise that the present situation be reconsidered.



**Annex 7 (Cont'd)**

**ACTUARIAL POSITION**

6. Presentation in the annual report of the Pension Plan

According to Article 9 (a) of the Regulations of the Pension Plan the Management Board shall have an actuarial valuation made of the Plan at least once every three years. The auditors were informed that it is not the intention to present the outcome of this valuation in the Balance Sheet of the Pension Plan. It is recommended to insert a chapter in the annual report of the Pension Plan giving the latest available information concerning the actuarial position of the Plan.

7. Interest rate

According to Article 8 (a) of the Regulations of the Pension Plan the Management Board shall decide upon the rates of interest to be used in the periodic actuarial valuation of the Plan and for other actuarial calculations. In its fifth meeting on 18 June 1999 the Management Board agreed that the rate of interest to be used for the calculation of the actuarial equivalent of benefits taken in the form of a lump sum should be set at 4.5 per cent. It is noted that the Management Board has not yet decided on the interest rate to be used in the periodical actuarial valuation of the Plan.

8. The representatives of the Netherlands Court of Audit wish to record their appreciation of the willing cooperation given by the officers of the Pension Plan during the audit.

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