

**General Council  
19 December 2001**

**WTO PENSION PLAN  
MANAGEMENT BOARD**

**ANNUAL REPORT<sup>1</sup>  
2000**

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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 Regulations on 26 March 1999.
3. The present report for the period from 1 January 2000 to 31 December 2000 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. 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

The Management Board was composed as follows on 31 December 2000:

Ambassador Jaegil Lee, Chairman			
Mr. Roberto Carvalho Azevedo	Members elected by the General Council	Mr. Jacques Chabert	Members appointed by the Director-General
Mr. Mark Linscott		Mr. Hector Millan	
Mr. Michael Stone <sup>2</sup>		Mr. Anthony Mistri	
Mr. Peter van der Gaast		Mr. Paul Rolian	
Mr. Andrew Johnston	Alternates elected by the General Council	Ms. Monette David	Alternates appointed by the Director-General
Mr. Jean-Marc Mignon		Mr. Zdenek Drabek	
Mr. Matthew Nwagwu		Mr. Jean-Pierre Lapalme	
Mr. Stig Traavik		Mr. Jan-Eirik Sørensen	

### (b) Secretary

Robert Luther

### - Support services

Jean-Pierre Helary  
Christine Dresti

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<sup>2</sup> Mr. Stone resigned on 3 April 2001 and was replaced by Mr. Remo Moretta.

(c) Consulting Actuary

Richard Leblond (Prasa Hewitt S.A.)<sup>3</sup>.

(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 six meetings in 2000. The agendas included the conclusion of contracts with the global custodian and active fund managers<sup>4</sup>, review of investment performance, selection of a consulting actuary, preparation of a transfer agreement with the United Nations Joint Staff Pension Fund, drafting of rules of procedure, selection of a firm for the outsourcing of specialist support services and the establishment of an investment monitoring mechanism. These items are dealt with in greater detail below.
7. Regular progress reports were made available to the Plan participants.

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

8. The Management Board determined the investment strategy for the Plan in 1999. Details were provided in the Annual Report for 1999. In 2000, the Management Board concentrated on completing its implementation through the appointment of investment managers under appropriate mandates.
9. As stated in the Annual Report for 1999, the mandates with the Northern Trust Company as the global custodian and with ING Investment Management and Wellington Management International as the active fund managers were launched on 19 April 2000. Assets to a value of approximately SFR 70 million were transferred on that date to Northern Trust and assigned equally to the two active portfolios.

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

10. In February 2000, the Management Board decided to move the current account of the Plan from the UBS to the Crédit Suisse since the latter offered more favourable cash management terms.
11. Barclays Global Investors (BGI) continued to serve as manager of the Plan's four passive<sup>5</sup> portfolios allocated to Swiss bonds, global bonds ex-Switzerland, Swiss equities and European equities ex-Switzerland.
12. Accumulated contributions were swept regularly into the BGI passive portfolios in accordance with the weights specified in the investment strategy approved by the Management Board.

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<sup>3</sup> Mr. Leblond was replaced by Mr. Cameron Hannah (William Mercer S.A.) on 1 March 2001.

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

<sup>5</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.

13. The performance of the BGI passive portfolios and of the ING and Wellington active portfolios over the period ending 31 December 2000 is summarized in Annex 2.
14. In spite of difficult market conditions, the Plan achieved a nominal rate of return of 4.73% in 2000, corresponding to a real rate of return of 3.23% after deduction of the movement of 1.5% in the Swiss cost-of-living index in 2000. It is recalled that the long-term target for the Plan is a real rate of return of 3.5%.

#### Selection of a Consulting Actuary

15. In the course of 2000, the Management Board completed its analysis of tenders received for the provision of actuarial services and heard presentations from three short-listed candidates. Pursuant to Article 7 of the Regulations of the Plan, the Management Board decided to recommend to the Director-General the appointment Mr. Cameron Hannah of William Mercer S.A. to serve as the Plan's consulting actuary. Mr. Hannah took up his duties on 1 March 2001.

#### Transfer Agreement with the United Nations Joint Staff Pension Fund (UNJSPF)

16. As provided for under Article 10 of the Regulations, the Management Board negotiated a transfer agreement with the UNJSPF under which participants would be able to transfer their accumulated pension rights from one plan to the other. The transfer agreement was endorsed by the General Council and United Nations General Assembly in December 2000 and entered into force on 1 January 2001.

#### Rules of Procedure

17. 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.
18. The Management Board continued its work on the drafting of the rules of procedure with a view to their submission to the General Council<sup>6</sup>.

#### Outsourcing of Specialist Support Services

19. The Management Board analysed the replies to the call for tenders issued in 1999 for the outsourcing of the Plan's specialist support services. These services include the maintenance of individual records, the calculation of benefits and estimates and the maintenance of accounts. The Management Board decided to select Trianon S.A., a specialist firm based in Lutry (VD), subject to the negotiation of a satisfactory contract.
20. In deciding to outsource the above services, the Management Board also agreed that the Plan Secretariat should continue to provide an in-house service allowing participants and beneficiaries access to information about their pension entitlements. The Management Board further decided that the contract with Trianon should provide for the purchase of the software licence by the Plan and return of a complete, historized database in the event that the Management Board decided to cease outsourcing those services.
21. The contract negotiations were still in progress at the end of the year<sup>7</sup>.

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<sup>6</sup> The rules of procedure of the Management Board were approved by the General Council on 8 May 2001.

<sup>7</sup> The contract with Trianon was signed on 1 June 2001.

Establishment of an Investment Monitoring Mechanism

22. With the launching of the full investment strategy, the Management Board turned its attention to the ongoing maintenance of that strategy, including monitoring compliance of fund managers with their mandates, ensuring that the proper balance of the strategy is maintained and assessing the need for adjustments to the strategy in the light of investment performance and/or changes in the liability structure of the Plan. The Management Board concluded that it would be necessary to set up an expert subsidiary body to deal with those tasks and noted that similar bodies, or "investment committees", existed in other pension plans.
23. Work on the composition and terms of reference of the investment committee was still in progress at the end of the year<sup>8</sup>.

**PARTICIPATION IN THE PENSION PLAN**

24. The following table shows the trends in the numbers of participants and beneficiaries in the Pension Plan in the course of 2000.

**Participants in the Pension Plan in 2000**

<b>Total number on 1 January 2000</b>	552
Movements in 2000	
- entries	57
- separations	28
<b>Total number on 31 December 2000</b>	581
Breakdown of separations in 2000	
- retirement	
- early retirement	2
- withdrawal settlement	23
- deferment of decision	3

**Beneficiaries of the Pension Plan on 31 December 2000**

Retirement benefits	1
Early retirement benefits	5
<b>Total number of beneficiaries on 31 December 2000</b>	6

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<sup>8</sup> The investment committee is expected to be established by the middle of 2001.

## **OPERATING COSTS**

25. The External Auditor noted, in reporting on 1999 WTO Pension Plan accounts, that the operating costs of the Pension Plan did not include the costs incurred by the WTO Secretariat working for the Plan. The External Auditor advised that the situation should be reconsidered since the costs concerned were basically costs of the Pension Plan.
26. The Management Board reconsidered this matter and noted that, according to Article 5(f) of the Regulations of the Plan, all expenses incurred in administering the plan, investing plan assets, employing the services of professional advisers and those incurred by the WTO in providing facilities for and in support of the Management Board are to be borne by the Plan and that each element is to be separately identified in the annual report.
27. The Management Board further noted that the ongoing costs of administering the Plan could not be accurately determined until the outsourcing contract with Trianon (see paragraphs 19-21, above) was fully operational. The cost of investing Plan assets and employing services of professional advisers was already reported in detail in the Pension Plan accounts.
28. The Management Board further noted that the provision for administrative costs of 0.2 per cent of pensionable remuneration included in the total contribution rate of 22.5 per cent of pensionable remuneration had been determined without taking into account the salary and related costs of the staff involved in the administration of the Plan. The provision of 0.2 per cent, corresponding to approximately SFR 154,700 in 2000, was intended to cover actuarial costs and administrative costs other than those relating to the salaries of the WTO secretariat staff.
29. Finally, the Management Board was informed by the WTO Secretariat that, during the present interim phase and pending the full introduction of the above outsourcing arrangements with Trianon, it was estimated that the WTO Secretariat allocated 1.6 work years to the administration of the Plan, corresponding to approximately SFR 250,000, or approximately 0.3 per cent of pensionable remuneration. The Management Board noted that the current overall contribution rate of 22.5 per cent, which was 1 per cent higher than the actuarially required contribution rate was adequate to cover the full operating costs of the Plan. The Management Board agreed to establish a reserve to cover the operating costs.

## **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 rates of exchange are 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. In 1999, the Pension Plan's foreign currency holdings in BGI had been revalued in Swiss franc terms on a monthly basis and the results credited to the currency revaluation reserve fund. In 2000, it was decided that the accounts should reflect the historical value in Swiss francs of those holdings. As a result of that correction, the currency revaluation reserve fund was reduced by SF 3,437,125 on 1 January 2000.
33. The value of securities recorded in the accounts corresponds to the lower of the purchase price or market value.<sup>9</sup>
34. The income and expenditure statement for the period 1.1.2000 - 31.12.2000 and surplus account as at 31.12.2000 are reproduced in Annexes 3 and 4, respectively.
35. The balance sheet as at 31.12.2000 is reproduced in Annex 5.

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<sup>9</sup> On 31 December 2000, the value of unrealized gains, corresponding to the difference between the market value and purchase price of the Plan's assets stood at SFR 8,379,784.

36. The source and application of funds for the period 1.1.2000 - 31.12.2000 is reproduced in Annex 6.
37. A glossary of terms to facilitate an understanding of the tables is reproduced in Annex 7.
38. The significant increase in management fees in 2000 is explained by the fact that the mandates for the two active fund managers were launched on 19 April 2000 (see paragraph 9, above).
39. The increase in the amount of cash held on current account at 31 December 2000 compared to 31 December 1999 is explained by the fact that, in addition to the monthly contributions received at the end of December 2000, an amount of SFR 1,641,400 was being held in cash at that date by the three fund managers.

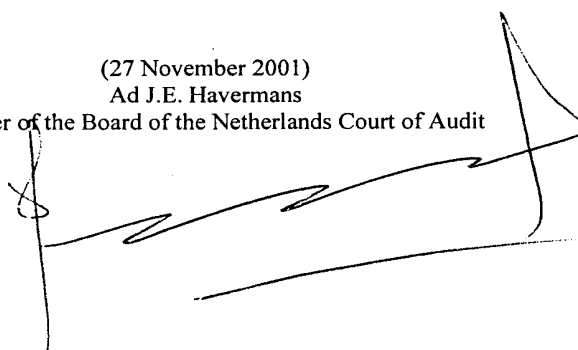
#### **ACTUARIAL POSITION OF THE PLAN**

40. The consulting actuary to the WTO Pension Plan has completed an interim actuarial assessment of the WTO Pension Plan effective 31 December 2000. The interim assessment was completed by taking the results of the official actuarial valuation completed at 31 December 1998 and adjusting these results based on grouped membership data provided by the Secretariat. Based on the results of this actuarial assessment, the consulting actuary confirms that the actuarial position of the plan has improved relative to the actuarial valuation completed as at 31 December 1998. This is mostly due to the fact that liabilities are in Swiss francs whereas the majority of the assets were in US dollars which strengthened significantly relative to the Swiss franc.

#### **OPINION OF THE EXTERNAL AUDITOR ON THE ACCOUNTS OF THE WTO PENSION PLAN FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2000<sup>10</sup>.**

I have examined the appended Financial Statements of the WTO Pension Plan for the year ended 31 December 2000. 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 2000 and the operations for 2000.

(27 November 2001)  
Ad J.E. Havermans  
Member of the Board of the Netherlands Court of Audit



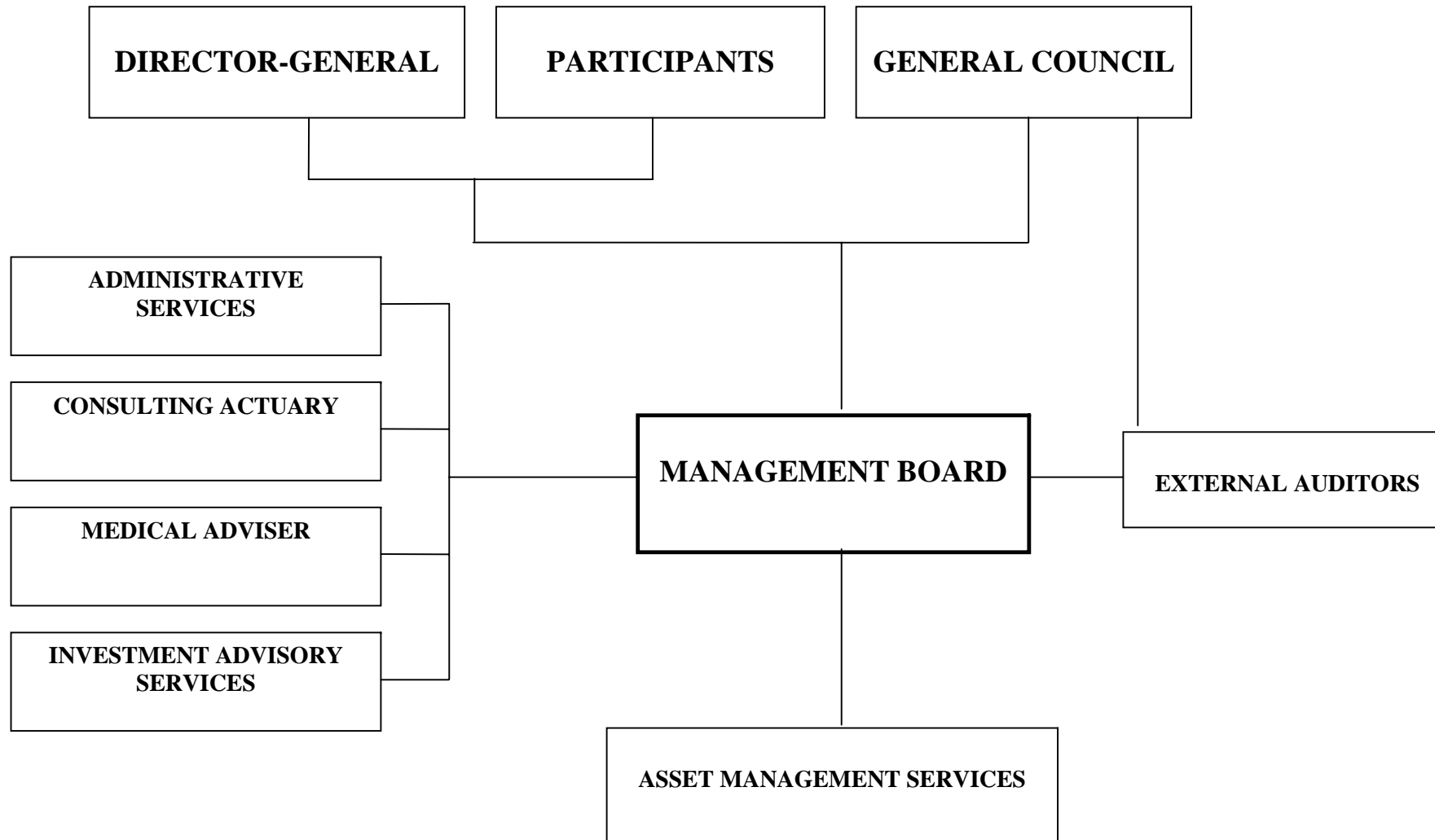
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<sup>10</sup> The report of the External Auditor on the accounts of the WTO Pension Plan for the year ended 31 December 2000 is attached as Annex 8.



STRUCTURE OF THE WTO PENSION PLAN

ANNEX 1



**ANNEX 2**

RETURN ON PASSIVE AND ACTIVE PORTFOLIOS IN 2000			
Portfolio	Market value at 31 December 2000 (in SFR)	Return on portfolio in 2000	Movement of benchmarks in 2000
Swiss bonds (BGI)	31,566,671	3.08%	3.50%
Global bonds ex-Switzerland (BGI)	32,777,401	2.56%	2.49%
Swiss equities (BGI)	29,461,092	7.34%	7.16%
European equities ex-Switzerland (BGI)	28,461,439	-8.77%	-8.72%
Global equities ex-Switzerland (ING)*	31,316,095	-15.70%	-16.00%
Global equities ex-Switzerland (Wellington)*	32,395,555	-12.30%	-16.00%

\* Since inception on 1 May 2000.

ANNEX 3

Income and Expenditure Statement (expressed in Swiss francs)					
Expenditure	at 31.12.2000	at 31.12.1999	Income	at 31.12.2000	at 31.12.1999
<b><u>Benefits</u></b>			<b><u>Contributions</u></b>		
<b><u>Lump sum</u></b>			Participants	5,592,747	5,189,136
Withdrawal settlement – Art. 26	254,678	313,299	Organization	11,185,462	10,378,271
Commutation – Art. 23(c) & Art. 24(c)		812,408		16,778,209	15,567,407
	254,678	1,125,707			
<b><u>Periodic benefits</u></b>					
Retirement benefit – Art. 23	23,352	15,304			
Early retirement benefit – Art. 24	191,881	93,132			
	215,233	108,436			
<b><u>Investment and Other Administrative Expenses</u></b>			<b><u>Investment Income</u></b>		
- Bank charges	385	653			
- Audit fees	39,238	29,000	Interest on current accounts	16,925	4,873
- Management fees	558,027	35,209	Interest on deposit accounts	1,022,964	3,431,594
- Fees for investment advice		145,349	Income on securities	8,497,648	1,493,113
- Actuarial expenses	18,912	39,432	Foreign exchange difference		732
- Administrative costs	15,535	5,749	Currency revaluation reserve fund	1,309,579	7,157,273
	632,097	255,392		10,847,116	12,087,585
Excess income over expenditure	26,523,317	26,165,457			
	<b><u>27,625,325</u></b>	<b><u>27,654,992</u></b>		<b><u>27,625,325</u></b>	<b><u>27,654,992</u></b>

ANNEX 4

<b>Surplus Account</b> (expressed in Swiss francs)					
Debit	at 31.12.2000	at 31.12.1999	Credit	at 31.12.2000	at 31.12.1999
Provision for currency revaluation	1,309,579	7,157,273	Excess income over expenditure	26,523,317	26,165,457
Provision for unrealized loss on securities	3,465,349				
Provision for operating costs	500,000				
	5,274,928	7,157,273			
Surplus	21,248,389	19,008,184			
	<u>26,523,317</u>	<u>26,165,457</u>		<u>26,523,317</u>	<u>26,165,457</u>

ANNEX 5

<b>Balance Sheet</b> (expressed in Swiss francs)					
Assets	at 31.12.2000	at 31.12.1999	Liabilities	at 31.12.2000	at 31.12.1999
Securities	191,268,022	101,439,036	Capital 1.1	164,504,143	145,495,959
Deposit		67,902,618			
Current and investment accounts	3,020,832	1,433,679			
	194,288,854	170,775,333	<b><u>Reserve funds</u></b>		
			Currency revaluation reserve fund	5,029,727	7,157,273
			Unrealized loss on securities reserve fund	3,465,349	
			Operating costs	500,000	
				8,995,076	7,157,273
<b><u>Current assets</u></b>			<b><u>Current liabilities</u></b>		
Withholding taxes to be recovered	602,961	250,350	Benefits due to participants	15,806	26,230
Receivable from the UNJSPF		22,101	Accrued expenses	196,533	135,892
Accrued interest	61,832	682,856		212,339	162,122
Contributions receivable	6,300	92,898			
	671,093	1,048,205			
			Surplus	21,248,389	19,008,184
	<b><u>194,959,947</u></b>	<b><u>171,823,538</u></b>		<b><u>194,959,947</u></b>	<b><u>171,823,538</u></b>

## ANNEX 6

<b><u>Source and Application of Funds</u></b> (expressed in Swiss francs)		
<b><u>Source</u></b>	1.1.1999-31.12.1999	1.1.2000-31.12.2000
Funds as at 1.1 (14.1.1999)	171,823,538	128,286,189
Receivable from UNJSPF		17,209,770
Receipt of contributions	16,778,209	15,567,407
Return on investments	6,072,188	4,930,312
Increase in reserve funds	1,837,803	7,157,273
Increase in current liabilities	50,217	162,122
	196,561,955	173,313,073
Less:		
<b><u>Application</u></b>		
Settlement of benefits	469,911	1,234,143
Expenditure	1,132,097	255,392
	1,602,008	1,489,535
Funds as at 31.12	<b><u>194,959,947</u></b>	<b><u>171,823,538</u></b>

**ANNEX 7**

**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 2000 accounts.

**Contributions receivable** refers to contributions due in respect of contributory service in 2000 but received after 31.12.2000.

**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.

**Provision for operating costs** refers to the reserve established to cover operating costs not currently charged to the Plan.

**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 31.12.2000.

**Report of the external auditor on the accounts of the WTO Pension Plan  
for the year ended 31 December 2000**

**General**

In this second year of the WTO Pension Plan, some important decisions concerning the management of the assets were taken, including the appointment of the global custodian and the active fund managers.

**Financial Management**

**Rules of procedure**

The auditors noted that, in accordance with their suggestions in the 1999 report, the duties and authority of the Management Board and the auditing rules have been laid down in rules of procedure which were approved by the General Council.

**Attestation de vita**

The auditors noted that their suggestion to develop a system of Attestation de vita had been accepted and implemented.

**Operating costs**

In the 1999 report it had been mentioned that the operating costs of the Plan had been carried by the Secretariat of the WTO. The auditors had advised that this situation should be reconsidered. They noted that the Management Board had given due consideration to this point (paragraphs 25-29 of the annual report for 2000). The auditors stipulated that a reserve for the operating costs should be created. A more definitive solution to this issue has still to be found.

**Outsourcing of specialist services**

The auditors noted that the Management Board has outsourced administrative and accounting services as from 1 June 2001. The contract stipulates that the annual accounts are to be submitted to the external auditor. The auditors would ask the Management Board to oblige the contractors to provide information to the auditors whenever needed.

Outsourcing the above-mentioned services still leaves the responsibility for administration and accounting with the Management Board. The auditors advise that an internal control system with respect to the service provider and an audit trail should be established.

**Other audit findings**

The books proved to be well kept, although not every transaction was fully understandable from paper without additional explanations. Decisions with financial implications should therefore be included in the files, thus providing a better audit trail. Given the limited number of staff and, consequently, the vulnerability of the Plan, such a provision would be important not only from the view of the external auditor but even more for the Plan itself.

The auditors noted that not all invoices paid bore certification for payment for the delivery of the goods or the services. They asked for attention to that point.



### **Actuarial position**

In their 1999 report the auditors had recommended the inclusion of a chapter in the annual report of the Pension Plan giving the latest available information concerning the actuarial position of the Plan. The auditors noted that such information was added to the annual report for 2000. In the year 2002 there will be the first periodical actuarial evaluation of the Plan. The interest rate that will be used in that calculation has not yet been determined by the Management Board.

### **Final remarks**

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 Secretariat during the audit.

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