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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Forty-second Meeting
Montreal, 29 March - 2 April 2004

RATE OF RETURN ON UNEP'S FUND INVESTMENTS

FOLLOW-UP TO DECISION 41/3 (F)

NOTE FROM THE SECRETARIAT

1. The revised draft agreement on the services of the Treasurer presented to the 41st Meeting (Annex I to document UNEP/OzL.Pro/ExCom/41/4) contained clause 1.8 requesting agencies which expressed interest in assuming the role of treasurer to the Fund, "*to design and manage an investment strategy which takes into account the funding and disbursement patterns of the funds and maximise return on cash balances while meeting disbursement requirements*".
2. In its comments on the draft, UNEP indicated that while it has interest in continuing providing treasury services to the Multilateral Fund, it is not in a position to design an investment strategy specifically applicable to the Multilateral Fund.
3. In Decision 41/3 (f), the Executive Committee requested UNEP to provide information on the rate of returns on its Fund investments.
4. Attached is the feedback received from UNON on the rate of return on UNEP's fund investments.

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REPORT FROM UNEP/UNON

1. The UN Treasury, on behalf of UNON and therefore UNEP, changed its investment strategy in 2001. Since 2001, the UN Treasury has been operating a pool of investments; the advantage of the new strategy being that it allows a longer term approach to the core fund investments. Prior to 2001, each investment was handled separately.

2. UNHQ Treasury informed UNON that "All investments system-wide are placed in a joint investment pool for all Offices away from Headquarters (OAH). Treasury, UNHQ, is solely responsible for the investment policy and participating offices are only responsible for their own cash flow/liquidity planning. Treasury, UNHQ, invests in different securities, with varying due dates and interest rates. Hence, it is not practical to indicate due dates and interest rates against the investment pool for OAH."

3. Based on the interest earned on the monthly values in UNON books, UNON calculations indicate that the average interest rate on investments for each of the three years is as shown in the table below:

2001	2002	2003
5.6% to 5.8%	4.4% to 4.4%	2.7% to 3.2%

4. The range of investment returns indicated above was obtained by calculating the investment returns in two different ways indicated below:

- a) the average of the monthly interest rates calculated by reference to the interest accrued against the average balance for the preceding month.
- b) the average of the annual interest rates calculated by reference to the interest accrued against the average balance for the year.

5. The reason for the large spread in 2003 is that there was significant volatility in 2003 both in the sums invested and the level of earnings.

6. The overall rate of return of the pool for 2003, as communicated by UNHQ Treasury to UNON is 3.04%.

7. Given the change in the investment strategy, the period prior to 2001 does not appear to be relevant and has not been reported upon.

