

March 18, 2009 at 4:21 PM

Dear Ms. Cassell,

Thank you for your e-mail dated 15 March 2009 and your thoughtful inquiry concerning the financial status of the Fund.

There is no doubt that the recent turmoil in the global financial markets has had an impact on the market value of the Fund's investment portfolio. More specifically, and as noted in your e-mail, at the close of business on 31 December 2008 the market value of the Fund's assets was some US\$ 31.3 billion; close to eleven billion dollars less than the all time high it had reached at the end of October 2007. It is important to stress, however, that the Fund's underlying strength is its very long-term investment horizon and that its investment strategy is clearly determined with this in mind. Any assessment of its performance should therefore be on the basis of an analysis of the investment returns over a substantial period, such as the last five, ten and twenty years and even since 1960 when the Fund began allocating more significant portions of its portfolio to equities.

With specific reference to the questions raised in your e-mail, I would first like to recall that under article 12 of the Regulations of the UNJSPF, the Fund is required to have an actuarial valuation carried out once every three years. In practice, however, the Fund's Consulting Actuary carries out a valuation every two years. The last one was carried out as at 31 December 2007 and the next one will therefore be carried out as at 31 December 2009.

As you are aware, actuarial valuations are very long-term projections and are therefore not carried out on the basis of market values on any one given day. Rather, in order to determine the value of assets to be used for actuarial valuation purposes, a 5-year moving market average method was suggested by the Committee of Actuaries at its twenty-seventh session in its 1987 report to the Board. Under this method, the average market value of the Fund over the current and four preceding 31 Decembers is determined and then is adjusted for cash flow, on a time-weighted basis, producing a value that essentially recognizes 20 per cent of each year's fluctuation in asset values and rates of currency exchange each year for five years. The Committee also suggested a limiting range of 15 per cent, which means that the computed value would have a minimum value of 85 per cent and a maximum value of 115 per cent of the market value of assets at the valuation date. This method has been employed commencing with the actuarial valuation as of 31 December 1986 in determining the actuarial value of assets. It was used again in the latest valuation.

The market value and its component elements as of 31 December 2007 were:

Stocks and convertible bonds	25,018,260,212
Bonds	13,577,005,263
Real Estate	1,710,032,607
Temporary investments	1,075,931,588
TOTAL	41,381,229,670

The net excess of cash and incurred asset items over incurred liability items, as computed from the Statement of Assets and Liabilities as at 31 December 2007, was equal to \$525,171,347. This amount was added to the values of the invested monies of the Fund to obtain total values. After making this adjustment, the market value was determined to be \$41,906.4 million and the cost value to be \$30,583.4 million.

Under the 5-year moving market average method, the actuarial value of assets before application of the limiting range of 15 per cent, was determined to be \$35,517.4 million, or 84.8 per cent of the market value. Since this value was outside the limiting range, it was necessary to apply the lower boundary of the range. Therefore, the actuarial asset value used for 31 December 2007 valuation was \$35,620.4 million, which equaled 85% of the market value of \$41,906.4. This compared with the \$27,878.3 million actuarial asset value used for the prior valuation, which was 87.2 per cent of the market value as of that date. Accordingly, the actuarial asset value as of 31 December 2007 was 27.8 per cent greater than that as of the prior valuation. In other words, if the Fund were to carry out an actuarial valuation today, it would be done on the basis of the above methodology and would not be based fully on today's market value.

In addition, I noted your questions regarding the funding ratios and can confirm that your assumptions are correct. I would add however that as we do not carry out actuarial valuations in the even-numbered years, we do not have a funding ratio as at 31 December 2008. In this connection, I would point out that

the Fund's actuarial valuations provide the Fund with two types of analysis. One on a "projected basis", which as at 31 December 2007 revealed an actuarial surplus of 0.49 per cent of pensionable remuneration. The other analysis is carried out in order to assist the Pension Board in its assessment of the position of the Fund on a "current basis" rather than on a projected basis. The funding ratios, to which you refer, are comparisons of the current assets of the Fund with the value of the accrued benefits (liabilities) on the given valuation date and are calculated on a "plan termination basis".

With respect to your inquiry concerning whether the Fund carries out a sensitivity analysis, I attach below a copy of the most recent such analysis, which tests the scenarios in respect to the asset levels, exchange rate fluctuations and various different inflation rates. Although this information is as at 31 December 2005, it does provide some indicative figures that might be of interest to you:

(See attached file: sensitivityanalysis.doc)

Finally, and in any case, the Fund's Committee of Actuaries and the Investments Committee will be meeting in a joint session on 1 May to discuss the current circumstances and the Committee of Actuaries will be holding its regular meeting in June to carry out a fuller assessment of both the economic and demographic assumptions to be used in the next valuation. In the meantime, while I trust the above has addressed your inquiries, I would also like to thank you for your interest in the financial situation of the Fund.

Best regards.

Frank DeTurris

Chief of Operations

UNJSPF

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