



WORLD TRADE  
ORGANIZATION

**RESTRICTED**

**WT/BFA/W/636**  
**WT/L/1167**

12 June 2023

(23-3796)

Page: 1/28

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**Committee on Budget, Finance and Administration**  
**General Council**  
**24-25 July 2023**

## **WTO PENSION PLAN**

### **ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2022**

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**CONTENTS**

|   |           |
|---|-----------|
| <b>1 HIGHLIGHTS .....</b>   | <b>4</b>  |
| 1.1 Investment return .....   | 4         |
| 1.2 Asset allocation .....  | 5         |
| 1.3 Participants and beneficiaries 2022 .....   | 6         |
| <b>2 SUMMARY OF MANAGEMENT BOARD ACTIVITIES.....</b>                                    | <b>7</b>  |
| <b>3 REVIEW OF THE WTOPP INVESTMENT PERFORMANCE .....</b>                               | <b>7</b>  |
| <b>4 ACTUARIAL POSITION OF THE PLAN .....</b>   | <b>8</b>  |
| <b>5 IPSAS ACCRUED LIABILITIES OF THE PLAN .....</b>                                    | <b>9</b>  |
| <b>6 ORGANIZATION AND STRUCTURE OF THE PENSION PLAN ON 31 DECEMBER 2022 .....</b>       | <b>9</b>  |
| <b>7 ACCOUNTS .....</b>   | <b>10</b> |
| <b>8 EXTERNAL AUDITOR .....</b>   | <b>10</b> |
| <b>9 FINANCIAL STATEMENTS .....</b>   | <b>12</b> |
| 9.1 Management letter of representation .....   | 12        |
| 9.2 Statement 1: Income and expenditure statement .....                                 | 13        |
| 9.3 Statement 2: Balance sheet .....  | 14        |
| 9.4 Schedule A: Source and application of funds .....                                   | 15        |
| 9.5 Schedule B: Breakdown of expenditures .....   | 15        |
| 9.6 Schedule C: Investment mandate overview .....                                       | 16        |
| 9.7 Schedule D: Asset allocation .....  | 17        |
| 9.8 Schedule E: Investment performance .....  | 18        |
| 9.9 Schedule F: Investment performance history from inception to 31 December 2022 ..... | 19        |
| 9.10 Schedule G: Exchange rates used for closing on 31 December 2022 .....              | 19        |
| 9.11 Schedule H: Participation in the Pension Plan .....                                | 20        |
| 9.12 Schedule I: Structure of the WTO Pension Plan .....                                | 21        |
| 9.13 Schedule J: Glossary of terms .....  | 21        |
| <b>ANNEXES .....</b>  | <b>24</b> |

**MESSAGE FROM THE CHAIRMAN OF THE MANAGEMENT BOARD**

The Management Board of the World Trade Organization Pension Plan (WTOPP) is pleased to present to the General Council and to Plan participants and beneficiaries its 2022 Annual Report prepared in accordance with Article 5 of the Regulations of the Plan.

Most of the Board's work in 2022 was directed to actuarial matters. This included developing draft reform proposals to address the substantial projected actuarial imbalance identified in recent actuarial valuations. The work in 2022 was largely devoted to developing recommendations to bring the actuarial position of the Plan back into long-term balance and the process of consultation with stakeholders.

In 2022, the WTO Pension Plan investment portfolio had a real return of -15.7%. This negative performance reflects geopolitical uncertainty and a correction to substantially above average returns in 2021 that were not based on economic performance. It is important to bear in mind that price volatility as measured by the value of the portfolio on 31 December of each year is not a good indicator of the underlying economic potential of the investments. Current economic circumstances remain challenging for investors and are likely to remain so for some time.

However, prudent management of the investment portfolio has continued to provide above the target rate of return for the past decade. Nonetheless, continued above target returns cannot be counted on and, in any case, could not reasonably be expected to solve the identified actuarial imbalance. Only a well-balanced and timely package of reforms can address the funding gap and work on that will continue to be the focus of the Management Board in 2023.

More information on the investment philosophy of the Management Board and details on the allocation of assets can be found in the report and its annexes.

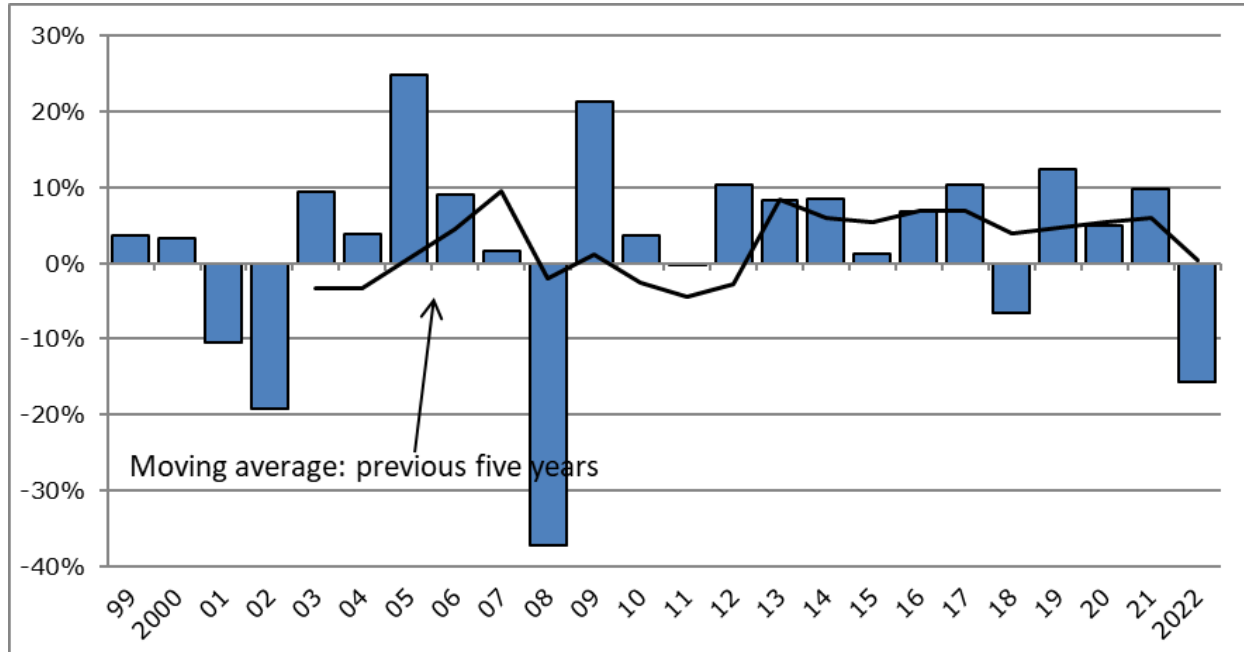
In closing, I would like to thank the members of the Management Board for their engagement and valuable contributions to matters concerning the Plan. On behalf of the Management Board, I would like to thank WTOPP Secretariat staff for their support and service. The Management Board and the Plan's Secretariat are fully engaged in ensuring the continued good governance and the sustainability of the WTO Pension Plan and are pleased to share this annual report with you.

Jean-Marc van Dril, Chair of the Management Board

## 1 HIGHLIGHTS

### 1.1 Investment return

**Figure 1 Historical returns net of inflation and fees**



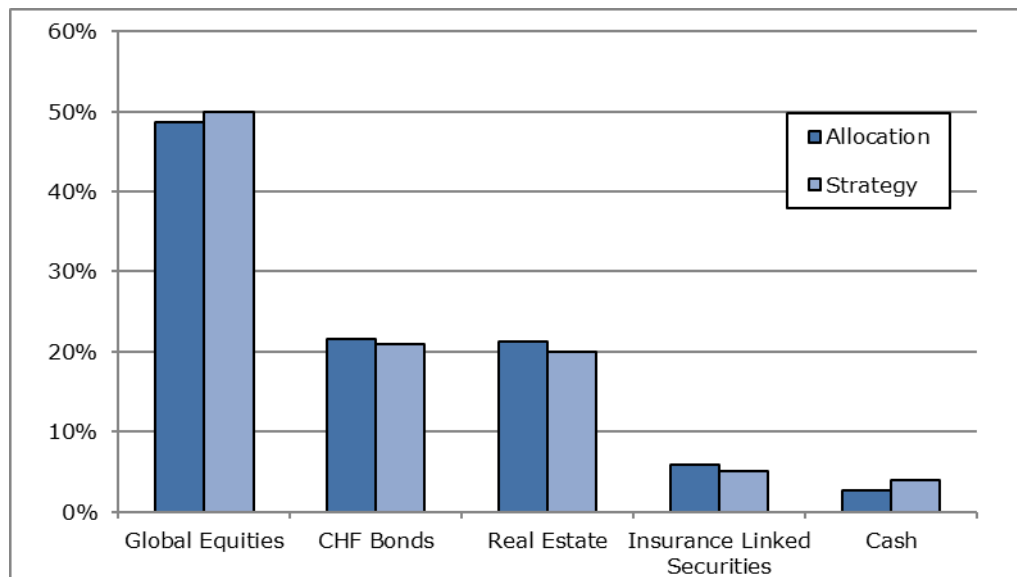
1. In 2022 the Pension Plan's investment portfolio had a nominal rate of return of -12.9%, following a downturn in global financial markets. As Swiss inflation for 2022 was close to 2.8%, the portfolio's real return was -15.7% for the year. Even though current economic circumstances remain challenging, a significant part of this negative return was due to valuations on financial markets reverting to more normal levels, after reaching extreme levels in 2021. While this has caused the Plan's portfolio's market value to decrease, it has also improved its capacity to generate income. As a long-term investor the Pension Plan can tolerate such volatility.

**Table 1 Net investment return**

|             | Nominal       | Real          |
|-------------|---------------|---------------|
| <b>2018</b> | <b>-5.8%</b>  | <b>-6.5%</b>  |
| <b>2019</b> | <b>12.6%</b>  | <b>12.4%</b>  |
| <b>2020</b> | <b>4.2%</b>   | <b>5.0%</b>   |
| <b>2021</b> | <b>11.3%</b>  | <b>9.7%</b>   |
| <b>2022</b> | <b>-12.9%</b> | <b>-15.7%</b> |

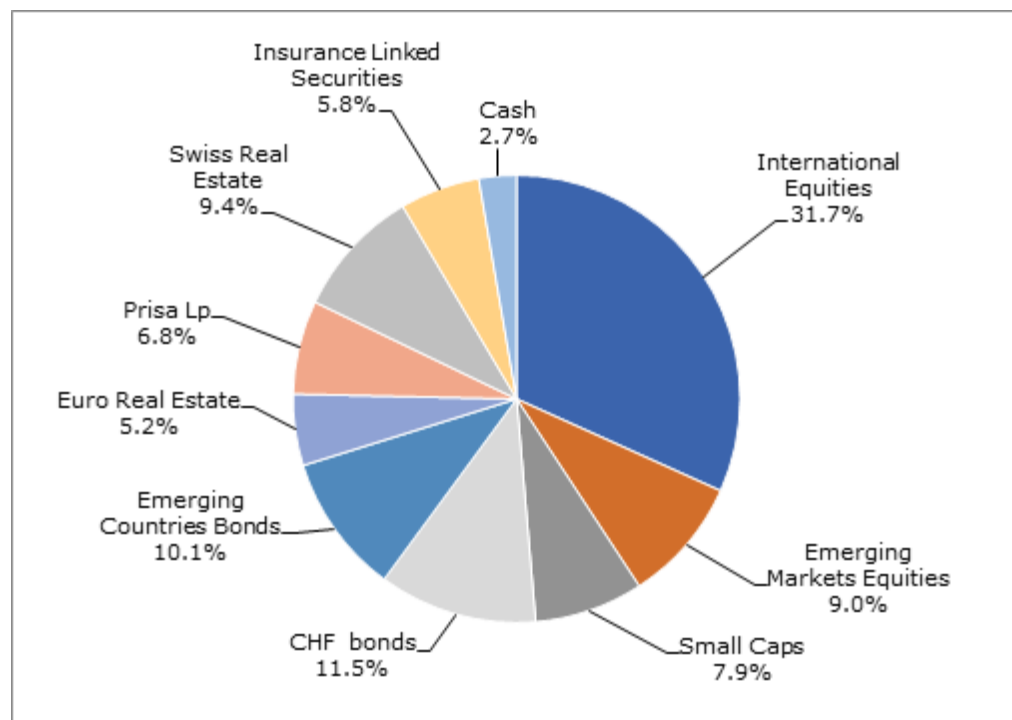
## 1.2 Asset allocation

**Figure 2 Asset allocation as of 31 December 2022, actual vs. strategy**



2. The WTOPP rebalances its portfolio in the first quarter of each year, by re-aligning as necessary the allocation to each asset class with the strategy.<sup>1</sup> This mechanism takes advantage of volatility in financial markets as it is carried out by selling securities that have become relatively more expensive and buying assets that have become relatively cheaper. A rebalancing will also be triggered by changes in financial markets causing the weight of equities in the portfolio to deviate from the strategic allocation by more than 10%.

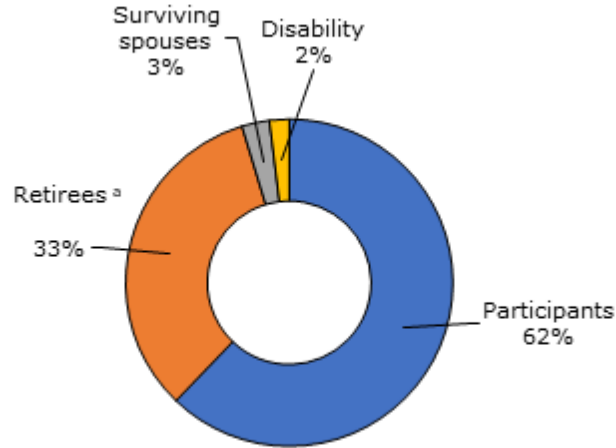
**Figure 3 Detailed asset allocation 2022**



<sup>1</sup> See reference to rebalancing in the Glossary and Annex 2 for more information on this approach.

### 1.3 Participants and beneficiaries 2022

**Figure 4 Plan membership by type**



a including deferred retirement benefits.

3. There were 705 participants on 31 December 2022, which was slightly lower than 716 participants on 31 December 2021. On the other hand, the number of beneficiaries increased from 427 to 446 over the same period.

**Table 2 Plan membership**

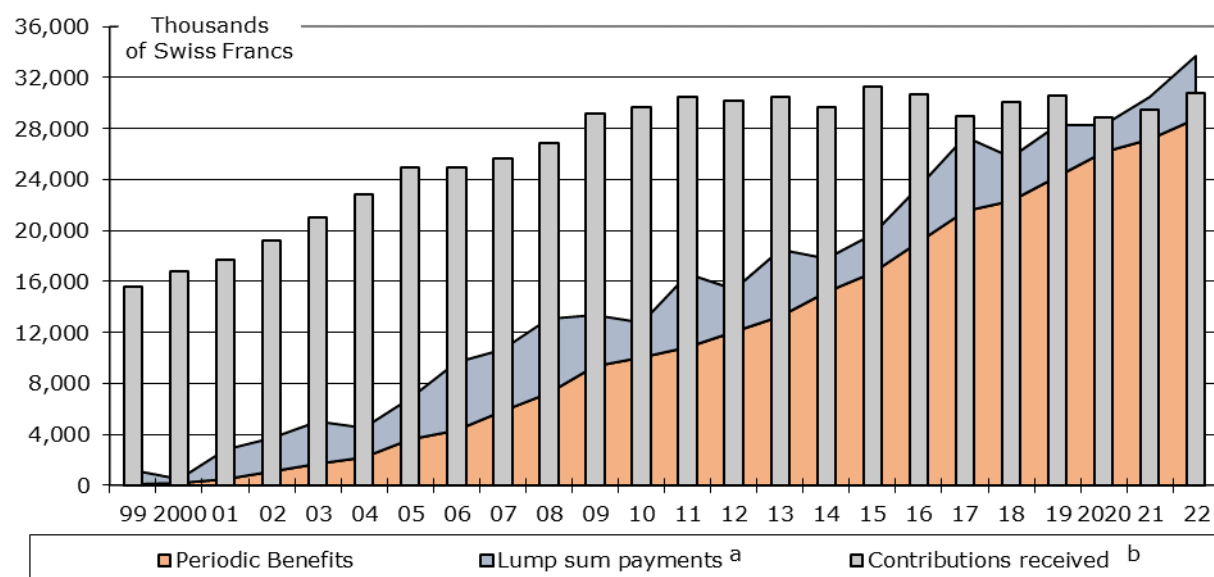
| Membership              | 2021 | 2022 |
|-------------------------|------|------|
| Number of Participants  | 716  | 705  |
| Number of Beneficiaries | 427  | 446  |

**Table 3 Types of benefits**

| Types of benefits                | Total number |           | Average monthly benefit |           |
|----------------------------------|--------------|-----------|-------------------------|-----------|
|                                  | Year 2021    | Year 2022 | Year 2021               | Year 2022 |
| Retirement benefits              | 194          | 202       | CHF 7,000               | CHF 7,100 |
| Early retirement benefits        | 138          | 144       | CHF 5,000               | CHF 5,200 |
| Disability benefits <sup>a</sup> | 22           | 22        | CHF 5,600               | CHF 5,400 |
| Surviving spouse's benefits      | 29           | 31        | CHF 4,200               | CHF 4,100 |
| Child's benefits                 | 19           | 17        | CHF 500                 | CHF 500   |
| Deferred retirement benefits     | 25           | 30        | -                       | -         |

a includes benefits paid to beneficiaries above retirement age

4. As the number of beneficiaries continues to increase, so do the benefits paid annually by the Plan. Periodic benefits and lump sum benefits amounted to CHF 33.7 million in 2022, which is about CHF 3.2 million more than the year before. The benefits are also higher than the received contributions (CHF 30.8 million). As the population of retirees continues to increase, it is expected and considered perfectly normal that this gap will continue to widen over the years. These developments are considered in the context of the actuarial valuations that the Management Board regularly carries out to monitor the Plan's long term funding situation.

**Figure 5 Contribution income and benefit expenditure**

a Including transfer values paid to other Organizations.

b Including transfer values received from other Organizations.

## 2 SUMMARY OF MANAGEMENT BOARD ACTIVITIES

5. In 2022 the WTO Pension Plan Management Board met six times in regular Board meetings and once in a special session. The meetings occurred in a hybrid format. They took place on February 11<sup>th</sup>, February 22<sup>nd</sup>, April 25<sup>th</sup>, June 21<sup>st</sup>, September 20<sup>th</sup>, October 24<sup>th</sup>, and December 5<sup>th</sup>. As ongoing items, the agendas for all meetings included the presentation of the investment situation and a report by the Secretariat on matters arising since the previous meeting of the Management Board. Additionally, the Board's agenda included recurring items such as the approval of the Plan's Annual Report and Financial Statements for submission to the General Council and review of the Plan's actuarial position.

6. Outside the formal Board meetings, the Management Board Working Groups met thirteen times. For comparison, the working groups met nine times in 2021 and six times in 2020. Ten meetings addressed actuarial issues (focused on the development of a reform proposal), two dealt with disabilities, and one addressed investment.

7. In 2022, the Board and Secretariat dealt with the Plan's actuarial situation on a priority basis. This included: publishing full actuarial valuation results that (based on 2020 numbers) identified a 10.5% contribution rate funding gap; preparing a reform proposal to address this gap; organizing several presentations to the Committee on Budget, Finance and Administration (CBFA) and to participants and beneficiaries on the actuarial situation and reform proposal.

8. The Board and Secretariat also undertook important actions in other areas of management and governance. For example, they secured a clean audit opinion from the External Auditors and initiated analyses and actions to implement the Auditor's recommendations. Following up on recommendations of the 2019 and 2020 audits, the Board adopted guidelines formalizing review procedures for actuarial data, assumptions and methodology. It also formalized a mechanism with the WTO administration to compensate the Plan for the actuarial costs of management-induced separations. Furthermore, the Board took a decision on the allocation of excess cash or coverage of cash shortfalls based on the strategic investment allocation and agreed a procedure for the adjustment of disability benefits in the light of periodic medical reviews. The Board also completed the annual review of its risk management strategy and risk register and reviewed four disability cases.

## 3 REVIEW OF THE WTOPP INVESTMENT PERFORMANCE

9. The investment portfolio had a nominal return of -12.9% in 2022, compared to -12.2% for the Pension Plan's benchmark. Swiss inflation for 2022 was close to 2.8%. Hence, the portfolio's real return was -15.7% for the year.

10. The Plan's portfolio generated annual returns of +0.3%, +1.4% and +4.1% in nominal terms, respectively, over the last three, five and ten years. Despite significant negative returns in 2022, the 10-year return remains above the Plan's target of Swiss Inflation +3.5%.

11. The year 2022 was marked by the persistence of inflationary pressures, which had surfaced in 2021 and which were exacerbated by the war in Ukraine. The acceleration of inflation has prompted Central Banks to radically change their monetary policy in 2022 (the US Federal Reserve has raised rates seven times during the year, from 0.25% to 4.5%, the largest annual increase since 1980). In this context, the year was characterised by the simultaneous decline of almost all financial markets.

12. Equity valuations reached extreme levels by 2021. This trend was reversed in 2022, contributing significantly to the negative returns. Equity investments, which represent 50% of the Pension Plan's target allocation, had a return of -16.2% in 2022, against -15.7% for the benchmark.

13. Restrictive monetary policies have driven bond yields to their highest levels since 2011. The bond market decline has been the largest in over 50 years. Fixed income investments (21% of the Pension Plan's target asset allocation) returned -12.6% compared with -13.0% for the plan's benchmark. CHF-denominated bonds delivered a negative performance in 2022 (-6.8%). Emerging market bonds suffered larger declines (-18.7% against -20.3% for the benchmark).

14. Investments in Insurance Linked Securities (5% of the Pension Plan's target asset allocation) had a return of -3.6% for the year compared to -5.5% for the benchmark. These investments have no sensitivity to interest rate or economic developments. The negative return in 2022 is explained by the losses due to Hurricane Ian in Florida, one of the most devastating events of the last 20 years.

15. Real estate investments represent 20% of the target asset allocation. The return on this portion of the portfolio was -8.8% for the year. The Swiss real estate funds (Credit Suisse 1A Immo PK and Credit Suisse RE Switzerland) had a return of -18.1% in 2022 while the SXI index, which tracks the return of Swiss publicly traded real estate funds, had a return of -15.2%. International real estate funds, which include the Plan's investments in Warburg Henderson fund, PRISA LP, and CBRE Fund, had a consolidated return of 0.7%.

16. Yields on low-risk bonds remained very low or even negative between 2012 and 2021. As long-term returns are mainly determined by the initial yield, the outcome of investments made during this period was predictably poor. The return perspective for the coming years is more appealing thanks to higher yields. The decline in equity prices is also favourable for future long-term returns.

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

17. Increases in longevity and reduced expectations about future returns linked to low interest rates led to the identification of a large actuarial gap in 2022. Subsequently, the Management Board has been working for most of the year to develop a draft reform proposal to bring the Plan back to a sustainable position. This draft proposal, which aims to address the gap with balanced efforts from WTO Members, staff and beneficiaries was presented to all stakeholders at the end of 2022. Following intensive consultations, the proposal is currently being finalized and will be presented to the CBFA and subsequently the General Council for formal consideration in the course of 2023.

18. The reform proposal is designed to address the actuarial funding gap identified at end 2020. The projected Required Contribution Rate (RCR) needs to be 10.5 points higher to keep the Plan sustainable under the current conditions and assumptions about the future (i.e., a RCR of 34.2% compared to the current 23.7%). The current gap corresponds to a funded ratio of 80%, essentially meaning that assets and future revenue are 80% of what would be required to sustainably fund liabilities over the projected actuarial horizon.

19. The objective of closing the gap of 10.5% identified in 2020 is considered a valid target even though the size of the gap measured in subsequent interim valuations will vary in relation to the evolving demographics and year to year volatility in financial market valuations. For example, as market valuations rose significantly in 2021, the estimated gap decreased to 9.4% (82.3% funding ratio). However, the next valuation is expected to show an increased gap at end-2022 due to the drop of financial markets and another year of operating with an actuarial gap. The interim actuarial valuation at end-2022 will be presented in detail in a separate report by the consulting actuary to the CBFA in mid-2023.

## 5 IPSAS ACCRUED LIABILITIES OF THE PLAN

20. The WTO's financial statements include an actuarial estimate of pension benefits that differs in scope and method from the WTOPP's actuarial valuation discussed in Section 4, above. In line with the International Public Sector Accounting Standards (IPSAS), this estimate is produced for reporting on the WTO's accrued liabilities for employee benefits as at 31 December of each year, which includes mainly pensions and after-service health insurance.

21. The IPSAS estimate of the pension liability represents the hypothetical liability of the Organization to cover all its current employees' and retirees' acquired pension entitlements as of 31 December 2022. Unlike the Plan's actuarial valuation discussed in Section 4 above, the IPSAS estimate does not consider future staff and uses a different methodology for setting the discount rate.

22. Both valuations are reported together with the balance sheet, in Statement 2 of the financial statements.

## 6 ORGANIZATION AND STRUCTURE OF THE PENSION PLAN ON 31 DECEMBER 2022

23. 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.

24. The Regulations and Administrative Rules of the WTO Pension Plan were adopted by the General Council on 16 October 1998 (WT/L/282). The General Council approved the Rules of Procedure of the Management Board on 8 May 2001 (WT/L/402). The Regulations of the WTO Pension Plan were amended by the General Council on 1 December 2005, on 28 July 2009, on 26 October 2011, on 30 November 2015 and on 26 July 2017. The Administrative Rules were amended on 23 September 2005 and on 7 December 2016, and the Rules of Procedure were amended on 7 December 2016.

25. Key components of the governance and administrative structure of the Pension Plan included the following on 31 December 2022.

| Mr. Jean-Marc van Dril, Chairperson |   |                       |  |
|-------------------------------------|---|-----------------------|--|
| Ms. Wendy G. Campagna               | Members elected by the General Council            | Ms. Antonia Carzaniga | Members appointed by the Director-General    |
| Ms. Alicia Goujon                   |   | Ms. Aegyoung Jung     |  |
| Mr. Conor Harrington                |   | Mr. Rainer Lanz       |  |
| Mr. Darryl Leong                    |   | Mr. Thomas Verbeet    |  |
| Ms. Wei-Ting Chiu                   | Alternates elected by the General Council         | Ms. Kerry Allbeury    | Alternates appointed by the Director-General |
| Ms. Brigitte Lueth                  |   | Ms. Laura Monnet      |  |
| Mr. Rodolfo Rivas                   |   | Ms. Nthisana Phillips |  |
| Ms. Chiara Santangelo               |   | Ms. Zheng Wang        |  |
| Mr. Robert Luther                   | Observer on behalf of the beneficiaries           |                       |  |
| Mr. Paul Rolian                     | Alternate observer on behalf of the beneficiaries |                       |  |

|   |   |
|---|---|
| Secretariat   | John Breckenridge, Secretary<br>Yann Marcus, Pensions Officer<br>Dário Muhamudo, Pension Specialist   |
| Accounting and Outsourced Administrative Support services | Trianon S.A.  |
| Consulting Actuary  | c-alm   |
| Medical Adviser   | Centre d'expertise médicale Lancy (CEML)  |
| Investment Analyst/Consultant                             | MBS Capital Advice S.A.   |
| Global Custodians   | The Northern Trust Company<br>Pictet Asset Services   |
| Fund Managers   | Blackrock (emerging market bonds portfolio hedged in CHF)<br>Crédit Suisse (Small cap equity portfolio, Swiss bond portfolio and Swiss real estate portfolio)<br>GMO (emerging market bonds portfolio hedged in CHF)<br>MFS (emerging market bonds portfolio hedged in CHF) |

|                  |   |
|------------------|---|
|                  | Pictet (Equity portfolios (global equities and emerging markets)<br>Prisa LP (US Real Estate portfolio)<br>Warburg Henderson (European real estate portfolio)<br>CBRE (European real estate portfolio)<br>Scor (Insurance Linked Securities)<br>Gam (Insurance Linked Securities) |
| External Auditor | French Court of Audit   |

## 7 ACCOUNTS

25. The financial statements and schedules are presented in Section 9 of this Report. The notes to the financial statements found in Annex 1 include important additional explanations about the accounts. These notes are integral to understanding the accounts and the financial position of the Plan.

26. The income and expenditure statement for the period 1 January – 31 December 2022 is reproduced in Statement 1.

27. The balance sheet as of 31 December 2022 is reproduced in Statement 2.

28. The source and application of funds for the period 1 January-31 December 2022 are reproduced in Schedule A.

29. Details of the exchange rates used for closing the accounts on 31 December 2022 and the currency breakdown as of 31 December 2022, after hedging, are provided in Schedule G.

30. A glossary of terms to facilitate an understanding of the tables is reproduced in Schedule J.

31. Explanations of significant events in the 2022 accounts can be found in the notes in Annex 1.

## 8 EXTERNAL AUDITOR

32. The report of the External Auditor on the Accounts of the WTO Pension Plan for the year ended 31 December 2022 is produced separately from the Annual Report.

**OPINION OF THE EXTERNAL AUDITOR**

Cour des comptes



Le Premier président

Paris, - 1 JUN 2023

To  
**Mr Jean-Marc VAN DRIL**  
Chairman of the Management Board of  
the Pension Plan of the World Trade  
Organization

**AUDIT OPINION**

We have audited the Financial Statements of the Pension Plan of the World Trade Organization (WTOPP) for the 12-month period ended 31 December 2022. These Financial Statements include a Statement of income and expenditure, the Balance Sheet and additional tables. They have been prepared in conformity to the Status and Rules of procedure of the Plan under the responsibility of the Secretariat of the Management Board of the Pension Plan of the World Trade Organization. They have been established in accordance to the principles and accounting methods in use since the creation of the Plan and they constitute Special Purpose Financial Statements. Our responsibility is to express an opinion on these statements based on our audit.

We have conducted our audit in accordance with the International Standards on Auditing (ISA). These standards require us to plan and perform our audit in order to obtain reasonable assurance that the Financial Statements are free from material misstatements. An audit namely consists in collecting, by sampling, audit evidence regarding the amounts and the information presented in the Financial Statements. It also consists in evaluating the appropriateness of the accounting principles and estimates made by the Secretariat of the Plan, and the overall presentation of the Financial statements. We believe that the evidence collected is sufficient and appropriate to constitute a reasonable basis for our opinion.

In our opinion, the Financial Statements give a fair view of the financial position of the Pension Plan of the World Trade Organization as at 31 December 2022, as well as of the profit and loss result at date, in conformity with the special accounting framework of the Pension Plan of the World Trade Organization.

**Emphasis of matter**

We alert users that the Financial Statements are prepared in accordance with a special purpose framework and that, as a result, they may not be suitable for another purpose.

**Pierre MOSCOVICI**

## 9 FINANCIAL STATEMENTS

### 9.1 Management letter of representation

33. Pursuant to Article 5(d) of the WTO Pension Plan Regulations, the Management Board of the WTO Pension Plan is responsible for these financial statements. The financial disclosures in this report are intended to fairly present the Plan's financial results in a manner that is complete and understandable.

34. The Management Board is responsible for establishing and maintaining adequate internal control over financial reporting so as to provide reasonable assurance regarding the reliability of these financial statements for external purposes. This includes policies and procedures that 1) provide for the maintenance of records that accurately and fairly reflect the transactions of the Plan, 2) provide reasonable assurance that transactions are authorized and recorded in compliance with the Plan's Regulations and Rules and 3) provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of the Plan's assets. However, due to the inherent limitations of internal control over financial reporting, these controls may not prevent or detect all misstatements.

35. Based on the above, the Management Board has concluded that these financial statements present fairly the Plan's financial position and performance as of 31 December 2022.

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Jean-Marc van Dril

Chair

WTOPP Management Board

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John Breckenridge

Secretary

WTO Pension Plan

**9.2 Statement 1: Income and expenditure statement**

| <b>INCOME AND EXPENDITURE STATEMENT (expressed in Swiss Francs)</b>   |                    |                    |
|---|--------------------|--------------------|
|   | <b>2022</b>        | <b>2021</b>        |
| <b>Income</b>   |                    |                    |
| <b>Investment income</b>  |                    |                    |
| Profit on securities  | -                  | 75,371,340         |
| Currency revaluation  | -                  | -                  |
|   | <b>-</b>           | <b>75,371,340</b>  |
| <b>Contributions</b>  |                    |                    |
| Organization, regular contributions                                   | 19,770,060         | 19,486,923         |
| Organization, additional contributions                                | -                  | -                  |
| Participants, regular contributions                                   | 9,928,018          | 9,778,321          |
| Interests on validations  | 110                | 361                |
| Restorations  | 11,216             | 136,669            |
| Interests on restorations   | 1,063              | -                  |
| Transfers from other organizations                                    | 956,741            | 32,150             |
| Interests on transfers from other organizations                       | 109,541            | -                  |
|   | <b>30,776,750</b>  | <b>29,434,424</b>  |
| <b>Reimbursements claims under the death and disability insurance</b> | <b>657,535</b>     | <b>645,051</b>     |
| <b>Total income</b>   | <b>31,434,285</b>  | <b>105,450,815</b> |
| <b>Expenditure</b>  |                    |                    |
| <b>Periodic benefits</b>  |                    |                    |
| Retirement benefits (Art. 23)   | 17,039,339         | 15,771,686         |
| Early retirement benefits (Art. 24)                                   | 8,657,802          | 8,331,035          |
| Disability benefits – (Art. 28)                                       | 1,456,039          | 1,478,417          |
| Surviving Spouse benefits (Art. 29)                                   | 1,506,775          | 1,456,261          |
| Child benefits (Art. 30)  | 108,178            | 109,448            |
|   | <b>28,768,133</b>  | <b>27,146,847</b>  |
| <b>Lump sum benefits</b>  |                    |                    |
| Withdrawal settlements (Art. 26)                                      | 1,013,239          | 710,058            |
| Commutations (Articles 23c), 24d), and 25c))                          | 3,964,850          | 2,139,862          |
| Residual settlements (Article 33)                                     | -                  | 483,242            |
| Transfers to other organizations                                      | -                  | 33,257             |
| Interests on transfers to other organizations                         | -                  | 1,726              |
|   | <b>4,978,090</b>   | <b>3,368,145</b>   |
| <b>Participants' death and disability coverage</b>                    | <b>-</b>           | <b>707,813</b>     |
| <b>Loss on investment</b>   |                    |                    |
| Losses on securities  | 93,772,914         | -                  |
| Currency revaluation  | 136,916            | 2,950              |
| Negative credit interest  | 106,200            | 197,963            |
|   | <b>94,016,030</b>  | <b>200,913</b>     |
| <b>Investment and other administrative expenses</b>                   |                    |                    |
| Management fees   | 503,184            | 577,824            |
| Tranon and other administrative costs                                 | 195,789            | 209,943            |
| Consultancy fees  | 145,000            | 120,000            |
| Actuarial expenses  | 146,134            | 93,738             |
| Bank charges  | 38,252             | 28,928             |
|   | <b>1,028,358</b>   | <b>1,030,433</b>   |
| <b>Total expenditure</b>  | <b>128,790,611</b> | <b>32,454,151</b>  |
| <b>Profit / Loss (-) for the period</b>                               | <b>-97,356,326</b> | <b>72,996,664</b>  |

### 9.3 Statement 2: Balance sheet

| Balance sheet<br>(expressed in Swiss Francs) |                    |                    |                            |                    |                    |
|--|--------------------|--------------------|----------------------------|--------------------|--------------------|
| Assets                                       | At<br>31.12.2022   | At<br>31.12.2021   | Liabilities                | At<br>31.12.2022   | At<br>31.12.2021   |
| <b>Investments</b>                           |                    |                    | <b>Current liabilities</b> |                    |                    |
| Securities                                   | 622,345,276        | 706,361,395        | Accrued expenses           | 89,004             | 540,004            |
| Cash and cash equivalents                    | 17,275,927         | 30,985,894         |                            | <b>89,004</b>      | <b>540,004</b>     |
|  | <b>639,621,203</b> | <b>737,347,289</b> | <b>Capital</b>             |                    |                    |
| <b>Current Assets</b>                        |                    |                    | Capital as at 1 January    | 738,582,311        | 665,585,646        |
| Withholding taxes to be recovered            | 1,693,786          | 1,775,026          | Profit / Loss (-)          | -97,356,326        | 72,996,664         |
| Accrued income                               | -                  | -                  |                            | 641,225,985        | 738,582,311        |
| Receivable additional contributions          | -                  | -                  |                            |                    |                    |
|  | <b>1,693,786</b>   | <b>1,775,026</b>   |                            |                    |                    |
| <b>Total assets</b>                          | <b>641,314,989</b> | <b>739,122,315</b> | <b>Total liabilities</b>   | <b>641,314,989</b> | <b>739,122,315</b> |

36. Please note that this balance sheet shows neither the present value of future benefits (the pension liability) on the liability side, nor the capitalized future contributions on the asset side. In the WTO's financial statements, the pension liabilities are estimated at CHF 1,405 million according to IPSAS accounting rules. If the Pension Plan's asset value of CHF 641 million is deducted from this amount, the result is an estimated net accrued liability for employee benefits of CHF 764 million. This net value represents the hypothetical liability of the Organization to cover all its current employees' and retirees' pension entitlements as of 31 December 2022. It differs from the long-term valuation used in managing the Plan mainly in that it does not consider future staff and uses a different methodology for setting the discount rate.

37. On the other hand, the actuarial model used in managing the Plan per Article 9 of the Regulations considers future pension contributions and benefits for an open group of participants, and a projected real return rate based on expected return of the strategic portfolio allocation (see Schedule D). Its purpose is to produce best, yet conservative, estimates of future benefits, pension contributions and the investment returns. This model estimates the pension liability at CHF 1,059 million,<sup>1</sup> which, as explained in Section 4 of the Annual report, represents a significant funding gap. The Management Board is working on a proposal for measures to close this funding gap.

<sup>1</sup> present value of future benefits (CHF 1,894 million) minus present value of future contributions (CHF 835 million).

#### 9.4 Schedule A: Source and application of funds

| Source and application of funds<br>(expressed in Swiss Francs) |                    |                    |
|--|--------------------|--------------------|
|  | 2022               | 2021               |
| <b>Funds as at 1 January</b>                                   | <b>739,122,315</b> | <b>665,747,474</b> |
| Plus:  |                    |                    |
| <b>Source</b>  |                    |                    |
| Receipt of contributions                                       | 30,776,750         | 29,434,424         |
| Investment income  | -                  | 75,170,427         |
| Reimbursements of death and disability insurance claims        | 657,535            | 645,051            |
| Increase in current liabilities                                | -                  | 378,176            |
| <b>Total</b>   | <b>31,434,285</b>  | <b>105,628,078</b> |
| Less:  |                    |                    |
| <b>Application</b>   |                    |                    |
| Losses on securities   | 94,016,030         | 200,913            |
| Settlement of benefits   | 33,746,223         | 30,514,992         |
| Participants' death and disability coverage                    | -                  | 707,813            |
| Investment and other administrative expenses                   | 1,028,358          | 1,030,433          |
| Reduction in current liabilities                               | 451,000            | -                  |
| <b>Total</b>   | <b>129,241,611</b> | <b>32,253,238</b>  |
| <b>Funds as at 31 December</b>                                 | <b>641,314,989</b> | <b>739,122,315</b> |

#### 9.5 Schedule B: Breakdown of expenditures

| Expenditures<br>(Expressed in Swiss Francs)   |                  |                  |
|---|------------------|------------------|
|   | 2022             | 2021             |
| <u>Investment Management fees<sup>a</sup></u> |                  |                  |
| MFS   | 98,642           | 110,521          |
| Northern Trust                                | 16,077           | 19,001           |
| Pictet  | 388,465          | 448,302          |
| <b>Total</b>                                  | <b>503,184</b>   | <b>577,824</b>   |
| <u>Consultancy fees</u>                       |                  |                  |
| MBS Capital Advice                            | 145,000          | 120,000          |
| <u>Actuarial expenses</u>                     |                  |                  |
| c-alm <sup>b</sup>                            | 146,134          | 93,738           |
| <u>Administrative costs</u>                   |                  |                  |
| Trianon and other administrative costs        | 195,789          | 209,943          |
| <u>Other expenses</u>                         |                  |                  |
| (bank charges and external audit)             | 38,252           | 28,928           |
| <b>Total</b>                                  | <b>1,028,358</b> | <b>1,030,433</b> |

Note: Costs related to the WTOPP Secretariat are borne by the WTO and are not reflected in the Plan's Financial Statements (see paragraph 9 of Annex 1).

a management fees shown in this table are fees invoiced separately to the Plan as well as custody fees. They exclude management fees embedded in the reported value of the holdings, which are estimated at CHF 1,959,407 for 2022.

b actuarial fees in 2021 and 2022 cover exceptional costs of transitioning to a new actuary and expert advice in relation to developing a reform proposal to cover the actuarial gap.

## 9.6 Schedule C: Investment mandate overview

| Investment mandate overview |                   |   |                        |               |                         |   |
|-----------------------------|-------------------|---|------------------------|---------------|-------------------------|---|
| Asset class                 | Fund Manager      | Benchmark   | Ex-ante tracking error | Inception     | Location                | Website                                       |
| Global Equities             | Pictet & Cie      | 40% MSCI Europe, 40% MSCI North America, 20% MSCI Pacific | Indexed                | January 2011  | Geneva, Switzerland     | pictet.com                                    |
| Emerging Markets Equities   | Pictet & Cie      | MSCI Emerging Markets                                     | Indexed                | May 2016      | Geneva, Switzerland     | pictet.com                                    |
| Global Small Caps Equities  | Credit Suisse     | MSCI World ex Switzerland Small Caps                      | Indexed                | August 2020   | Zürich, Switzerland     | credit-suisse.com                             |
| Emerging Market Bonds       | BlackRock         | JP Morgan EMBI Glob Div. hedged in CHF                    | Indexed                | January 2016  | New York, United States | blackrock.com                                 |
| Emerging Market Bonds       | MFS               | JP Morgan EMBI Glob Div. hedged in CHF                    | 2%-3%                  | January 2011  | Boston, United States   | mfs.com                                       |
| Emerging Market Bonds       | GMO               | JP Morgan EMBI Glob Div. hedged in CHF                    | 3%-5%                  | January 2011  | Boston, United States   | gmo.com                                       |
| European Real Estate        | Warburg Henderson | 6.5% p.a.   | -                      | December 2006 | Hamburg, Germany        | warburg-henderson.com                         |
| US Real Estate              | PRISA LP          | NCREIF Fund Index ODCE                                    | -                      | February 2015 | Madison, United States  | pramericarei.com                              |
| European Real Estate        | CBRE              | -   | -                      | December 2018 | London, United Kingdom  | cbre.com                                      |
| Swiss Real Estate           | Credit Suisse     | SXI Real Estate Fund Index                                | -                      | November 2008 | Zürich, Switzerland     | credit-suisse.com                             |
| Insurance Linked Securities | Scor              | Swiss Re Global CAT bond Hedged CHF                       | -                      | December 2019 | Paris, France           | scor.com                                      |
| Insurance Linked Securities | Gam               | Swiss Re Global CAT bond Hedged CHF                       | -                      | December 2019 | Connecticut, USA        | gam.com/fr/managers/fermat-capital-management |
| CHF Bonds                   | Credit Suisse     | SBI AAA-BBB 1-5 Y   | -                      | August 2020   | Zürich, Switzerland     | credit-suisse.com                             |

## 9.7 Schedule D: Asset allocation

| Asset Allocation<br>as of 31 December 2022 |              |                    |              |                             |
|--|--------------|--------------------|--------------|-----------------------------|
| Assets                                     | MCHF         | Current weightings | Strategy     | Deviation from the strategy |
| <b>Global equities</b>                     | <b>311.2</b> | <b>48.6%</b>       | <b>50.0%</b> | <b>-1.4%</b>                |
| Developed markets                          | 203.0        | 31.7%              | 32.0%        | -0.3%                       |
| Emerging Markets                           | 57.8         | 9.0%               | 10.0%        | -1.0%                       |
| Small Caps                                 | 50.4         | 7.9%               | 8.0%         | -0.1%                       |
| <b>CHF bonds<sup>a</sup></b>               | <b>137.9</b> | <b>21.6%</b>       | <b>21.0%</b> | <b>0.6%</b>                 |
| CHF Bonds                                  | 73.3         | 11.5%              | 13.0%        | -1.5%                       |
| Emerging countries bonds                   | 64.6         | 10.1%              | 10.0%        | 0.1%                        |
| <b>Real Estate</b>                         | <b>136.3</b> | <b>21.3%</b>       | <b>20.0%</b> | <b>1.3%</b>                 |
| European Real Estate                       | 33.0         | 5.2%               | 5.0%         | 0.2%                        |
| U.S. Real Estate                           | 43.3         | 6.8%               | 5.0%         | 1.8%                        |
| Switzerland Real Estate                    | 60.0         | 9.4%               | 10.0%        | -0.6%                       |
| <b>Other Investments</b>                   | <b>37.0</b>  | <b>5.8%</b>        | <b>5.0%</b>  | <b>0.8%</b>                 |
| Insurance Linked Securities <sup>a</sup>   | 37.0         | 5.8%               | 5.0%         | 0.8%                        |
| <b>Cash</b>                                | <b>17.4</b>  | <b>2.7%</b>        | <b>4.0%</b>  | <b>-1.3%</b>                |
| <b>Total</b>                               | <b>639.7</b> |                    |              |                             |

Note: Numbers may not add precisely to totals provided due to rounding.

a Hedged in CHF. The Plan hedges 80% of foreign bonds and ILS investments. The hedges are renewed quarterly.

## 9.8 Schedule E: Investment performance

| Investment Performance as of 31 December 2022 (expressed in nominal terms) |                     |                      |                         |                 |                 |
|--|---------------------|----------------------|-------------------------|-----------------|-----------------|
|  | Over<br>1 year p.a. | Over<br>3 years p.a. | Since<br>inception p.a. | TE <sup>a</sup> | IR <sup>a</sup> |
| <b>TOTAL</b>   |                     |                      |                         |                 |                 |
| <b>Consolidated securities</b>   | <b>-12.9%</b>       | <b>0.3%</b>          | <b>4.1%</b>             | <b>3.49%</b>    | <b>-0.19</b>    |
| <i>Added value<sup>b</sup></i>   | -0.7%               | -0.7%                | -0.2%                   |                 |                 |
| <b>EQUITY</b>  |                     |                      |                         |                 |                 |
| <b>Consolidated equities</b>   | <b>-16.2%</b>       | <b>1.2%</b>          | <b>6.4%</b>             | <b>0.55%</b>    | <b>-0.25</b>    |
| <i>Added value</i>   | -0.5%               | -0.1%                | 0.3%                    |                 |                 |
| <b>Developed markets</b>   | <b>-14.9%</b>       | <b>2.2%</b>          | <b>6.9%</b>             |                 |                 |
| <i>Added value</i>   | -0.2%               | -0.1%                | -0.2%                   |                 |                 |
| <b>Emerging markets</b>  | <b>-19.1%</b>       | <b>-4.5%</b>         | <b>4.0%</b>             |                 |                 |
| <i>Added value</i>   | -0.2%               | -0.3%                | 0.0%                    |                 |                 |
| <b>Small Caps</b>  | <b>-17.1%</b>       |                      |                         |                 |                 |
| <i>Added value</i>   | 0.3%                |                      |                         |                 |                 |
| <b>FIXED INCOME<sup>c</sup></b>  |                     |                      |                         |                 |                 |
| <b>Consolidated fixed income<sup>d</sup></b>                               | <b>-10.9%</b>       | <b>-2.3%</b>         | <b>1.7%</b>             | <b>3.16%</b>    | <b>0.09</b>     |
| <i>Added value</i>   | 0.2%                | 0.3%                 | 0.1%                    |                 |                 |
| <b>Emerging countries bonds</b>  | <b>-18.7%</b>       | <b>-6.5%</b>         | <b>1.9%</b>             |                 |                 |
| <i>Added value</i>   | 1.6%                | 0.7%                 | 0.5%                    |                 |                 |
| <b>CHF Bonds</b>   | <b>-6.8%</b>        | <b>-6.5%</b>         | <b>1.9%</b>             |                 |                 |
| <i>Added value</i>   | -0.3%               | 0.7%                 | 0.5%                    |                 |                 |
| <b>Insurance linked Securities</b>   | <b>-3.6%</b>        | <b>0.8%</b>          | <b>0.6%</b>             |                 |                 |
| <i>Added value</i>   | 1.9%                | 0.0%                 | -0.3%                   |                 |                 |
| <b>REAL ESTATE</b>   |                     |                      |                         |                 |                 |
| <b>Consolidated real estate</b>  | <b>-8.8%</b>        | <b>0.0%</b>          | <b>3.2%</b>             | ---             | ---             |
| <i>Added value<sup>b</sup></i>   |                     |                      |                         |                 |                 |
| <b>Warburg Henderson</b>   | <b>-7.3%</b>        | <b>-4.7%</b>         | <b>2.5%</b>             | ---             | ---             |
| <i>Added value<sup>b</sup></i>   |                     |                      |                         |                 |                 |
| <b>CBRE</b>  | <b>-7.1%</b>        | <b>-0.9%</b>         | <b>-0.3%</b>            | ---             | ---             |
| <i>Added value<sup>b</sup></i>   |                     |                      |                         |                 |                 |
| <b>Prisa</b>   | <b>7.1%</b>         | <b>7.3%</b>          | <b>6.7%</b>             | ---             | ---             |
| <i>Added value</i>   | -2.0%               | -1.0%                | -2.5%                   |                 |                 |
| <b>Credit Suisse<sup>e</sup></b>   | <b>-18.1%</b>       | <b>-2.9%</b>         | <b>2.5%</b>             | ---             | ---             |
| <i>Added value</i>   | -2.9%               | -3.2%                | -2.2%                   |                 |                 |

Note: Performances are presented net of fees and costs. Consolidated performances (over 1 year, 3 years and since inception in August 1999) are calculated taking into account previous investment vehicles, which were liquidated prior to this reporting exercise and do not appear separately in the table.

a TE = tracking error over 3 years, IR = information ratio over 3 years

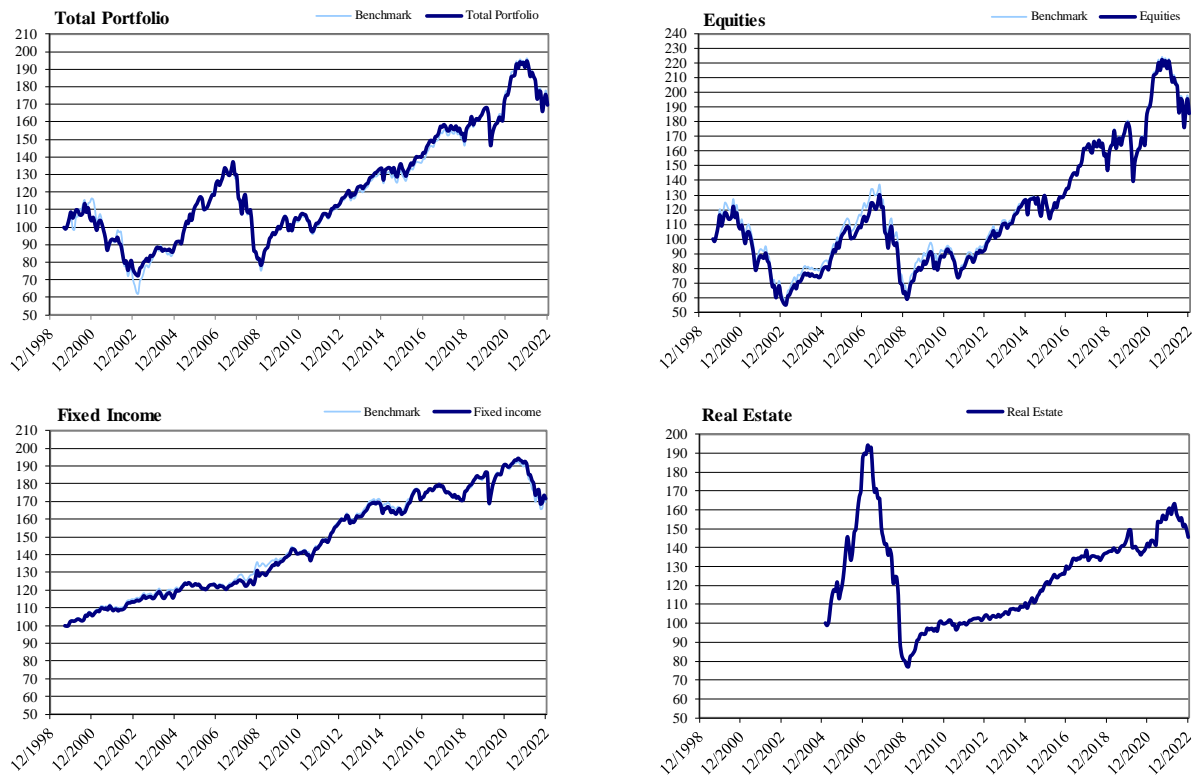
b Added value compares the performance to benchmarks, except when there is no formal benchmark (Warburg Henderson and CBRE), as specified in Schedule C.

c In line with its investment principles, the Plan minimizes currency risk on its fixed income and ILS investments by investing in CHF-denominated instruments, or by hedging investments denominated in currencies other than CHF. In the latter case, the hedging instruments' gains, losses, and costs are embedded in the asset class' performance, which is consistent with the fact that the return target expected out of these instruments is being considered in CHF terms when making investment decisions.

d In addition to the bonds' performance, the consolidated fixed income performance also includes the interest paid on the Plan's cash.

e The Credit Suisse pocket consists of two funds: the CS Immo PK and the CS RE Switzerland (index fund)

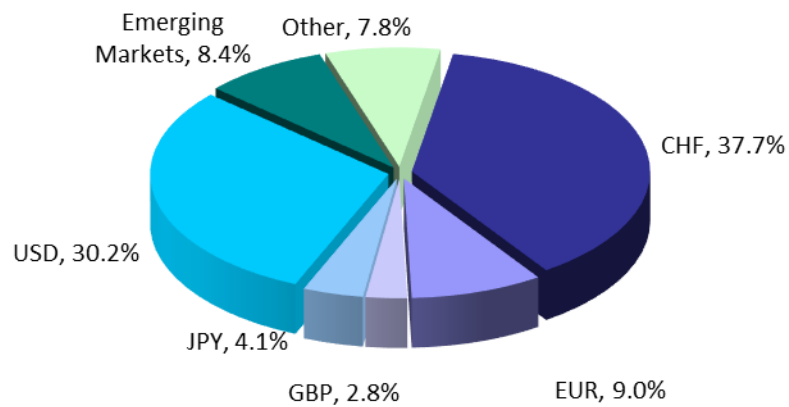
### 9.9 Schedule F: Investment performance history from inception to 31 December 2022



### 9.10 Schedule G: Exchange rates used for closing on 31 December 2022

| Currency pair | Exchange rates |
|---------------|----------------|
| CHF per 1 EUR | 0.9874         |
| CHF per 1 USD | 0.9252         |
| JPY per 1 CHF | 142.6124       |
| CHF per 1 GBP | 1.1129         |

Figure 6 : Currency breakdown as of 31 December 2022 after hedging



### 9.11 Schedule H: Participation in the Pension Plan

The following tables show the trends in the numbers of participants and beneficiaries in the Pension Plan in the course of 2022.

#### Number of participants and beneficiaries on 31 December 2021

|                | 2021 | 2022 |
|----------------|------|------|
| Active members | 716  | 705  |
| Beneficiaries  | 427  | 446  |

#### Participants in the Pension Plan in 2022

|  |            |
|--|------------|
| <b>Total number on 31 December 2021</b>                                | <b>716</b> |
| Movements in 2022  |            |
| - Entries  | 126        |
| - of which re-entries under the terms of Art. 15(b) of the Regulations | 48         |
| - Separations  | 137        |
| <b>Total number on 31 December 2022</b>                                | <b>705</b> |
| Breakdown of separations in 2022                                       |            |
| - retirement   | 10         |
| - early retirement   | 7          |
| - deferred retirement  | 4          |
| - withdrawal settlement  | 42         |
| - transfer out   | 0          |
| - deferment of decision  | 74         |
| - death  | 0          |
| - disability   | 0          |
| <b>Total separations</b>   | <b>137</b> |

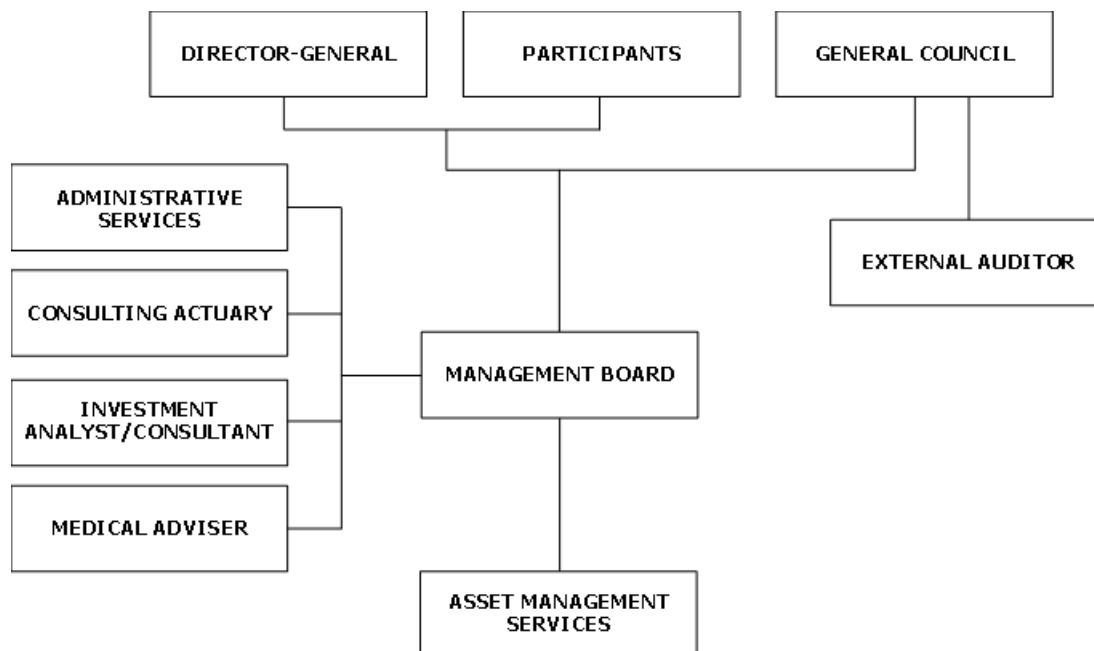
#### Benefits paid by the Pension Plan

| Type of benefit                   | At 31 December 2021 | New benefits in 2022 | Benefits ended in 2022 | At 31 December 2022 |
|-----------------------------------|---------------------|----------------------|------------------------|---------------------|
| Retirement <sup>a</sup>           | 194                 | 11                   | -3                     | 202                 |
| Early retirement <sup>a</sup>     | 138                 | 8                    | -2                     | 144                 |
| Deferred retirement <sup>b</sup>  | 25                  | 6                    | -1                     | 30                  |
| Surviving spouse's benefit        | 29                  | 2                    | 0                      | 31                  |
| Partial /total disability benefit | 22                  | 0                    | 0                      | 22                  |
| Child's benefit                   | 19                  | 2                    | -4                     | 17                  |
| <b>Total benefits</b>             | <b>427</b>          | <b>29</b>            | <b>-10</b>             | <b>446</b>          |

a Includes one deferred benefit that commenced being paid in 2022.

b Includes only deferred pension benefits not yet in payments. Deferred pensions in payments are classified as retirement or early retirement benefits.

### 9.12 Schedule I: Structure of the WTO Pension Plan



### 9.13 Schedule J: Glossary of terms

**Accrued expenses** include expenses incurred but not paid in the current accounting year.

**Accrued income** includes income which has been earned but not yet received in the current accounting year.

**Active investment management** is a form of portfolio management whereby the portfolio manager invests the assets in a manner different from the benchmark in an attempt to produce higher returns than the benchmark. The disadvantages of such a management style are characterized by higher management fees, higher trading costs as well as the risk of significantly underperforming.

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

**Administrative costs** include costs incurred in the general administration of the Pension Plan. They do not include the costs for the Plan's Secretariat, which are borne by the WTO (Article 5(f) of the Plan Regulations).

**Commutation** refers to retirement benefits, early retirement benefits and deferred retirement benefits commuted at the request of the participant, into a lump sum not exceeding 1/2 of the actuarial equivalent of the benefit or the amount of the participant's own contributions, whichever is the larger.

**Consultancy fees** include the fees charged by the investment analyst/consultant.

**Contributions** refer to sums payable for restoration, validation and benefit as detailed in Art. 20 of WTOPP Regulations.

**Contributions receivable** refers to contributions due in respect of contributory service in the accounting year but received after 31 December of the accounting year.

**Currency hedging.** In line with the Plan's investment principles, the Plan seeks to limit exposure to currency risk on debt instruments because they bear a currency risk that is theoretically not compensated in the long term, and because they play a stabilizing role to regulate the portfolio's short term volatility and allow rebalancing gains. When investing in debt assets denominated in currencies other than CHF, the Plan therefore hedges the currency risk. Technically, this involves the use of forward contracts, in which two parties agree to exchange a set amount of one currency for another at a predetermined exchange rate at some future date. If the currency of the investment depreciates causing losses on the portfolio, the hedging instruments will offset some of these losses. Hedging can have a cost, largely based on differences between lending and borrowing interest rates of the respective currencies.

**Currency revaluation** represents the adjustment of foreign currency-denominated bank account balances at 31 December 2022 to the exchange rate for that day. This adjustment reflects the variation in the exchange rate applicable to foreign currency-denominated bank account balances at the beginning of the year and in the exchange rates applicable to movements in the same accounts during the year, at the time each transaction took place.

**Indexed management** is a form of portfolio management that attempts to deliver the returns of the underlying benchmark by replicating exactly or by getting as close as possible to the composition of the benchmark at any point in time. It differs from active management in that it is significantly less costly and does not reflect the views, forecasts or opinions of the investment manager.

**IR or Information Ratio** is defined as the outperformance of the investment manager above the index divided by the portfolio's tracking error. The information ratio is used to represent a manager's skill. Generally, any ratio over 0.30 is thought of as demonstrating skill. IR refers to the information ratio over three years.

**Insurance Link Securities (ILS)** are financial instruments whose values are driven by insurance premiums and loss events. ILS enable re/insurance companies to enter into a risk transfer contract with investors in the capital markets, where the investor puts a collateral in exchange for a premium. Depending on whether the risk happens, the collateral will be drawn or returned to the investor, and the premium adjusted for the next term.

**Interest on validations** and **interest on restorations** refer to interest payments made under Articles 20(d) and 20(e) of the Plan Regulations.

**Management fees** include fees paid for the management of WTO portfolios.

**Organization, additional contributions** refers to the additional contributions paid by the Organization to compensate for the additional actuarial cost generated by the early separation of participants in the context of restructuring exercises.

**Profit/loss on securities** is the result of:

- capital gain/loss realized on securities;
- profit arising from the distribution of dividends and interest received on investments;
- revaluation of securities at their market price at 31 December (unrealized profit or loss).

**Rate of return** is the percentage of change in value of the portfolio over a specified period, taking into account both the investment income and the change in the market value of the portfolio. It is expressed as an equivalent annual rate. The nominal rate of return is the financial return of the assets and is before correction for inflation (measured on the basis of the annual movement of the consumer price index in Switzerland). The real rate of return is calculated by subtracting the change in the Swiss CPI from the nominal rate of return. The term gross means that the return is calculated before the deduction of investment related costs while the term net refers to the return including all investment related expenses. The target real rate of return is the long-term real rate of return that the Plan needs to achieve in order to meet its liabilities.

**Rebalancing** refers to the realignment of the allocation of the Plan's portfolio with its strategy. A predefined process identifies the triggers and other operational aspects (e.g. timing) of rebalancing actions. The rules are approved by the Board and applied automatically. This mechanism takes advantage of the inevitable excesses of financial markets.

**Regulations and Administrative Rules** refer to the Regulations and Administrative Rules adopted by the General Council on 16 October 1998, as amended by the General Council on 1 December 2005, on 28 July 2009, on 26 October 2011, on 30 November 2015, on 7 December 2016 and on 26 July 2017.

**Restoration** refers to the inclusion in contributory service of the prior contributory service of a former participant who again becomes a participant.

**Time-weighted return** is a measure of compound return. It reduces the distorting effect of inflows and outflows and is used to compare the returns of investment managers and their respective benchmarks. The time-weighted return is very similar to the geometric mean return.

**TE or Tracking error** is defined as the standard deviation of the portfolio's outperformance versus the benchmark. It is used as a measure to determine the risk of the portfolio versus its benchmark. This measure should not be confused with absolute risk; even though a portfolio has a very low tracking error, it can still be very risky due to the underlying nature of the market in which it invests. For an indexed management mandate, the tracking error would usually be less than 0.8. Anything above this would be considered active. TE is over 3 years.

**Validation** is defined in Art. 2(v) of WTOPP Regulations, as the inclusion in contributory service of a period of non-contributory service which occurred prior to the commencement of participation.

**Withholding taxes to be recovered** includes amounts of withholding tax levied by national tax authorities and subject to recovery after 31 December 2022. Recoverable withholding tax reflects the Plan's recognition as a tax-exempt entity due to its connection to the WTO. As an International Organization, the WTO is exempted from most national taxes such as value-added tax (VAT), federal stamp duty and tax on the interest earned on investments. Annually the Plan files tax reimbursement claims to the Swiss and other authorities. Occasionally the Plan's tax-exempt status is not automatically recognized by some national jurisdictions, in which case significant administrative and political intervention is often required to have this status fully recognized.

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## ANNEXES

### ANNEX 1 NOTES TO THE FINANCIAL STATEMENTS

1. Pursuant to Article 14(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, except in the case of the investment portfolios where the rates shown in Schedule G were used for valuation purposes.

2. The accounting year is 1 January to 31 December.

3. Pursuant to Article 13 of the Regulations of the Plan and Rule A.8 of the Rules of Procedure, the Management Board shall be responsible for the financial security and probity of the Plan and, in particular, the maintenance of its actuarial balance and of financial controls and accounts.

4. Pursuant to Article 5(e) of the Regulations of the Plan and Rule C.1 of the Rules of Procedure, an audit of the accounts of the Plan shall be made annually by the External Auditor, namely the External Auditor of the WTO. The provisions of Chapter XI ("External Audit") and the Appendix ("Additional terms of reference governing external audit") of the WTO Financial Regulations shall apply mutatis mutandis to the audit.

#### Statement of income and expenditure

5. The Pension Plan registered a loss on securities of CHF 93.8 million.<sup>1</sup> This represented a -12.9% nominal investment return and, taking Swiss inflation into account, -15.7% in real terms. This performance, which reflects sharp downturns in global financial markets, was significantly lower than the Plan's long-term target of 2.7% over the next ten years and 3.5% thereafter. Current economic circumstances remain challenging. However, as a long-term investor, the Pension Plan can tolerate such volatility.

6. Regular contributions received from the Organization and the participants amounted to CHF 29.7 million, up CHF 0.4 million compared with 2021.

7. Both periodic benefits and lump sum benefits increased by CHF 1.6 million each, to CHF 28.8 million and CHF 5.0 million respectively. The sum of benefits paid out exceeded the total amount of contributions received. This difference will increase in the future as the population of retirees continues to grow relative to the number of active participants.

8. The Management Board terminated the Plan's death and disability reinsurance coverage as of 31 December 2021 as increases in the premiums no longer made the coverage an attractive proposition. Therefore, no expenditure amount is recorded for 2022 as "Participants' death and disability coverage". The Plan's however still received CHF 0.7 million as reimbursements of claims under its death and disability insurance coverage, because the policy remains active for all disability cases that begin before the date of termination. Therefore it is expected to continue to receive reimbursements for several years.

9. Investment and other administrative expenses have remained stable at CHF 1.0 million. They are presented in further detail in Schedule B "Breakdown of Expenditures". On the one hand, investment management fees have decreased as they are linked to the size of the portfolio. On the other hand, actuarial expenses have increased significantly in relation to work needed to support the development of a reform proposal. Additionally, the Board agreed to a modest increase in the investment advisor's fees. The costs of providing a Secretariat for the Pension Plan are borne by the WTO and not reflected as a cost to the Plan. The Secretariat consists of a part-time Secretary and currently two full-time staff. In 2022, staff costs amounted to CHF 437,512 including salaries and benefits. Additionally, the Secretariat does not pay rent for office space and computers or phone services. These are estimated to be CHF 29,423 based on the WTO cost accounting methodology.

<sup>1</sup> for consistency with other sections of the statements and the Annual Report, this refers only to the loss on securities. When adding credit interests and adjustments for currency revaluations (which can be positive or negative), the total loss on investment was CHF 94.0 million at end-2022.

**Balance sheet**

10. The value of assets decreased mainly due to investment losses registered in 2022. Cash and cash equivalents amounted to about CHF 17.3 million in 2022.

11. Withholding taxes to be recovered amounted to CHF 1.7 million in 2022, a slight decrease compared to CHF 1.8 million in 2021. With effective assistance from the Plan's custodian banks, the Pension Plan Secretariat continues to pursue the recovery of all withholding taxes, including taxes over five years old that are written off from the financial statements.

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**ANNEX 2 INVESTMENT PRINCIPLES OF THE PENSION PLAN**

1. Pursuant to Article 13 of the Regulations of the Pension Plan and Rule A.9 of the Rules of Procedure, the Management Board shall be responsible for the secure investment of all Plan assets, the formulation of investment policies after taking appropriate professional advice, and the appointment of investment managers to implement that policy.

2. Derivatives may be used within the global hedged fixed income mandate for hedging purposes, where they provide the opportunities to achieve the objective of the Plan more efficiently than would be the case through the direct dealing in underlying securities. Derivative instruments for this mandate are restricted to forward foreign currency contracts, futures, covered bond options and interest rate options. Leverage and net short positions are not allowed.

3. In 2013 the Management Board approved a consolidated set of investment guidelines to articulate more precisely the Plan's approach to investment. A summary of these guidelines was shared with Plan participants and beneficiaries and can be found below. In 2020 the investment guidelines were revised to reflect the Board's decision on a new strategic asset allocation (50% equities, 30% fixed income and 20% real estate) and the new additional rule for rebalancing, however the principles behind the below summary remain unchanged.

**Summary of the WTO Pension Plan's approach to investment****Long-term investing**

4. The WTOPP is a long-term investor because its commitments are long-term and because behavior and decisions made with a long-term view are more likely to succeed. The long-term focus is rooted in the belief – supported by historical analysis – that in the long run, market returns will tend to reflect the assets' economic achievements.

5. This long-term orientation enables the Management Board to deploy its time efficiently by focusing on investment decisions with significant impact on portfolio returns while avoiding time spent on issues where the outcome is random or where the long-term impact is negligible.

6. Cognizant of the unreliable nature of short- or medium-term forecasts and the potential losses they may cause, the Management Board will not engage in "timing" short-term market fluctuations. Bets on the short- or medium-term evolution of financial markets may convert temporary losses into permanent impairment of capital.

**Investment risk**

7. The WTOPP should be concerned with permanent capital impairment. Non-recoverable loss permanently reduces future earning power. For example, money lent to a borrower that cannot fully honor its debt will not only permanently impair capital but also its capacity to generate future earnings.

8. Price volatility is commonly considered as a measure of investment risk. However, volatility fails to measure long-term investment risk and is only a threat to long-term investors if they misread its significance. For example, if a company's share price quickly falls by 50%, its volatility will skyrocket. However, if the long-term perspective of the company has not changed, the risk for investors has been greatly reduced, not increased. Thus, investors should focus on the long-term perspective not on market driven price volatility.

9. The valuation of an asset affects its future returns. Therefore, the valuation of assets is a risk that can produce damages similar to permanent capital loss. This is why it should be monitored on an on-going basis.

10. Monitoring the valuation does not constitute an attempt to predict the short-term evolution of market prices, but to appraise the long-term potential profitability of an investment given its current characteristics.

### Allocation of assets

11. Asset allocation is the main source of portfolio returns. Particular attention will therefore be paid to the definition and implementation of WTOPP's "strategic asset allocation".

12. Each asset class in the portfolio must generate a measurable income and must contribute to increasing the value of the WTOPP's assets. This increase must be driven by reliable, identifiable economic factors. The prospective return potential of each asset class may be assessed on the basis of these appropriate factors.

13. The WTOPP will maintain adequate diversification because expected returns on asset classes may take a long time to materialize and because the non-correlation of different assets helps dampen volatility and hence help avoid ill-considered decisions.

14. Asset classes and financial structures that do not produce income, lack transparency or use significant leverage are not appropriate for WTOPP. Commodities, hedge funds, venture capital, as well as structured products are therefore excluded from WTOPP's investment universe.

15. The WTOPP seeks to avoid changes in asset allocation based on short-term views and forecasts: all too often such changes only result in increasing costs. Changes in asset allocation are only warranted when justified by significant changes in the measurable characteristics of the Plan's investments allocated to an asset category or by fundamental changes in the Plan's liabilities or structure.

### Style of management

16. The objective of the implementation process is to execute the investment strategy as closely as possible while minimizing costs and avoiding unwanted implementation risks.

17. The Management Board implements the WTOPP's strategic allocation predominantly through indexed vehicles or portfolios.<sup>1</sup> Indices will be selected with utmost care, so that they truly represent the asset class in which the WTOPP's strategy intended to invest.

18. The choice of passive management is motivated by the observation that, over time, active management has performed less well, is less diversified, less predictable and more costly. Moreover, active management tends to be based, in most cases, on short-term views.

19. The WTOPP may use active management when passive management is not feasible or when tangible and clearly identifiable reasons lead to the belief that active management represents a better path.

20. Overall, the Plan will strive to minimize risks related to the implementation of the investment strategy. These risks include, but are not limited to, active management risk, unwanted credit risk and legal structure risk.

### Rebalancing

21. The WTOPP adopts a counter-cyclical approach through a systematic annual rebalancing mechanism whose function is to maintain the weight of the assets aligned with the strategic allocation. Rebalancing exercises are undertaken at least annually, normally in February. Since a Board decision in 2020, a rebalancing will also be triggered by changes on financial markets causing the weight of equities in the portfolio to deviate by more than 10% from the strategic allocation.

22. The systematic rebalancing is an effective way for the Plan to maintain a stable exposure to the market while taking advantage of market volatility.

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<sup>1</sup> Indexed vehicles aim to generate returns that are equal to those of a market index.

### **Cost and conflicts of interest**

23. Cost sensitivity is an integral part of the investment strategy. Costs should be maintained as low as possible without hindering the Plan's capacity to achieve its targets.

24. The supply of investment services or products is primarily driven by the financial interests of providers rather than by investors. The Management Board will therefore be particularly vigilant in choosing investment solutions that fit in its strategy and targets. The WTOPP will avoid investment vehicles in which the investment manager is paid a performance-based fee.<sup>2</sup>

25. The investment guidelines adopted by the Management Board are intended to generate sustainable returns over time and promote sound decisions even in times of economic stress and uncertainty. The guidelines are periodically reviewed to ensure they remain appropriate to the structure and circumstances of the Plan.

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<sup>2</sup> Such arrangements are unfair for investors because of the asymmetry of risk and reward