Document:	EB 2011/104/R.44	
Agenda:	14(c)(ii)	
Date:	31 October 2011	**E**
Distribution:	Public	
Original:	English	

IFAD

Enabling poor rural people
to overcome poverty

IFAD Investment Guidelines

Note to Executive Board representatives

Focal points:

Technical questions:

Iain Kellet
Chief Financial Officer
Head, Financial Operations Department
Tel.: +39 06 5459 2403
e-mail: i.kellet@ifad.org

Munehiko Joya
Director and Treasurer
Treasury Services Division
Tel.: +39 06 5459 2251
e-mail: m.joya@ifad.org

Dispatch of documentation:

Deirdre McGrenra
Head, Governing Bodies Office
Tel.: +39 06 5459 2374
e-mail: gb_office@ifad.org

Executive Board — 104th Session
Rome, 12-14 December 2011

For: Information

IFAD Investment Guidelines

1. As requested during the 103rd session of the Executive Board, the investment guidelines regulating IFAD's externally managed mandates are hereby presented for information.

2. The investment guidelines are provided to the Investment Manager as attachment II of the Investment Management Agreement, which regulates the relationship between IFAD and the Investment Manager.

3. The investment guidelines for the four externally managed mandates are hereby presented in the following order:

   Annex I: Investment Guidelines for Global Government Bond Investments
   Annex II: Investment Guidelines for Emerging Market Debt Investments
   Annex III: Investment Guidelines for Global Inflation-Indexed Fixed-Income Investments
   Annex IV: Investment Guidelines for Global Diversified Fixed-Income Investments

INVESTMENT GUIDELINES FOR GLOBAL GOVERNMENT BOND INVESTMENTS

1. Investment Objectives

The Manager will actively manage a portfolio of global government bonds (the Asset Portfolio). The Asset Portfolio's target excess return (net of fees and over the benchmark) should be no less than 0.75 per cent per annum measured over an average, annualized three-year period. The Asset Portfolio will be managed within IFAD's risk budget for global government bonds as indicated in IFAD's Investment Policy Statement (see annex II). The calculation agent for risk measures shall be IFAD, using a third-party tool and the measures shall be shared with the Manager on a monthly basis to verify the adherence to the set risk budget. Value-added will be achieved through positioning (duration, yield curve, securities and country selection).

The Manager shall ensure that investment emphasis is placed upon capital protection, that is, the achievement of adequate investment income to maintain the purchasing power of the Asset Portfolio over time.

2. Base Currency

The base currency shall be the United States dollar (US$).

3. Performance Benchmark

The benchmark used to measure the performance of the Manager shall be the JP Morgan Global Government Bond Index 1 to 3 years maturity bucket, and reweighted with respect to the four component currencies of the Special Drawing Rights valuation basket of the International Monetary Fund (the Benchmark).

4. Eligible Currencies

(a) The Manager may invest in all the currencies of the benchmark countries (the Benchmark currencies) and other convertible currencies; provided, however, that the currency exposure of the Asset Portfolio shall at all times be neutral to the adjusted country weights contained in the Benchmark, with a maximum divergence of plus or minus 0.5 per cent per Benchmark currency.

(b) Cross hedging is not allowed.

5. Eligible Instruments

The Manager shall have the authority to trade, buy, sell, acquire, hold or dispose of the following securities and instruments in the following categories:

(a) Treasury bills and bonds (except mortgage-backed securities) issued by national governments and by entities that are explicitly government-guaranteed or 100 per cent owned by governments including but not limited to the consequently eligible agencies and quasi-sovereigns.

(b) Issues of supranational organizations and international development institutions.

(c) Current accounts and call accounts shall only be held with the Custodian.

(d) Short-term instruments, meaning time deposits, certificates of deposit, floating rate notes and commercial paper.

(e) Spot and forward contracts for the purchase and sale of currency.

(f) Interest rate swaps for the hedging of the Asset Portfolio's security positions.

(g) Futures contracts and options for currencies and fixed-income securities. Such contracts are only allowed to the extent that they are traded on regulated exchanges.

6. **Credit Quality**

(a) Eligible instruments as defined in paragraph 5(a) and 5(b) must have a long-term rating of Aa3 or better by Moody's or AA- or better by Standard & Poor's or by Fitch.

(b) Counterparties for eligible instruments outlined in 5(d), 5(e) and 5(f) must have a minimum short-term rating of P-1 by Moody's or A-1 by Standard & Poor's or F1 by Fitch. Additionally, counterparties for eligible instruments defined in paragraph 5(f) must have a long-term rating of Aa3 or better by Moody's or AA- or better by Standard & Poor's or by Fitch.

For each security that falls below the minimum levels defined in paragraphs 5(a) and 5(b) above, subsequent to the date of purchase of a security, the Manager shall dispose of said security within 30 days of the date of downgrading by the rating agency.

7. **Minimum and Maximum Portfolio Duration**

(a) The overall duration of the Asset Portfolio may be no lower than zero, and no higher than one year above benchmark duration.

(b) The maximum duration refers to the overall Asset Portfolio and not to individual securities.

(c) The duration of any individual security may never be less than zero.

(d) The duration of each security held in the Asset Portfolio shall be calculated on the basis of all pertinent characteristics including price, coupon (floating or fixed), maturity and redemption provisions.

8. **Diversification**

(a) The maximum amount that may be invested in any debt issue, at all times, shall not exceed 10 per cent of the net asset value of the Asset Portfolio. This limitation does not apply to government issues of France, Germany, Japan, the United States of America and the United Kingdom.

(b) The maximum amount that may be invested in any specific debt issue shall not exceed 10 per cent of the total amount of the issue.

(c) The maximum amount that may be deposited with any single bank at any time, including the Custodian, shall not exceed US$30 million or equivalent.

9. **Other Provisions**

(a) Overdrafts shall not be authorized except in the case of failed trades. Failed trades shall immediately be notified in writing to both IFAD and the Custodian.

(b) The Asset Portfolio may not be leveraged.

(c) Future contracts and options may not be used to lever the Asset Portfolio.

(d) Options may not be written.

(e) All derivatives including forward contracts must be traded following the latest standards issued by the International Swaps and Derivatives Association (ISDA).

(f) The Manager shall not charge IFAD for any transaction costs.

(g) The Manager is prohibited from entering into any security lending arrangement.

(h) The Manager is prohibited from investing in IFAD non-Member States.

10. **Clearing for Futures and Options**

(a) The Manager shall clear all futures contracts and options through JP Morgan Securities Ltd. (JPMSL).

(b) In connection with the foregoing, the Manager shall enter into give-up agreements with JPMSL.

(c) The Manager shall provide JPMSL with a list of authorized trading and operations personnel (updated as appropriate) from whom JPMSL may accept instructions.

(d) The Manager shall reconcile JPMSL's statements and report any discrepancies to JPMSL on a daily basis and in its monthly report.

(e) The Manager shall instruct the Custodian and inform JPMSL with regard to daily margin movements and reconcile same with JPMSL.

(f) The Manager shall ensure that collateral is provided in cash or other securities accepted by the relevant exchange.

(g) The Manager shall close out positions on a FIFO (first in, first out) basis, provided, however, that in the event the Manager wishes to close out positions on a special basis, it must so notify JPMSL and the Custodian.

(h) The Manager shall ensure that all trades are settled on a T+1 basis unless otherwise determined between the Manager and JPMSL.

(i) The Manager shall pay commissions on fixed-income related products to JPMSL as set out in the Fee Schedule for Fixed-Income Related Products, attached hereto as annex I.

(j) The Manager's margin accounts opened on behalf of IFAD and in connection with these instructions shall have interest credited and debited to them in accordance with the rates negotiated between IFAD and JPMSL as set out in the Interest Rate Schedule, attached hereto as annex II.

The Manager shall in any case remain responsible for selecting executing brokers for futures contracts and options pursuant to section 3.05 of the Investment Management Agreement.

INVESTMENT GUIDELINES
FOR
EMERGING MARKETS DEBT INVESTMENTS

1. **Investment Objectives**

The Manager will actively manage a portfolio of emerging market debt (the Asset Portfolio). The Asset Portfolio's target excess return (net of fees and over the benchmark) should be no less than 1.00 per cent per annum measured over an average, annualized three-year period. The Asset Portfolio will be managed within IFAD's risk budget for emerging market bonds as indicated in IFAD's Investment Policy Statement (see annex II). The calculation agent for risk measures shall be IFAD using a third-party tool and the measures shall be shared with the Manager on a monthly basis to verify the adherence to the set risk budget. Value-added will be achieved through positioning (duration, yield curve, security and country selection).

The Manager shall ensure that investment emphasis is placed upon capital protection, that is, the achievement of adequate investment income, to maintain the purchasing power of the Asset Portfolio over time.

2. **Base Currency**

The base currency shall be the United States dollar (US$).

3. **Customized Performance Benchmark**

The benchmark used to measure the performance of the Manager shall be the JP Morgan Emerging Markets Bond Index Global Diversified investment grade, customized to exclude all countries that are not IFAD Member States and capped at a maximum index weight for each country of 15 per cent.

4. **Eligible Currencies**

(a) The Manager may invest in the Benchmark currency (United States dollar) and other hard currencies. The Manager may also invest in other convertible local currencies up to a maximum of 10 per cent of the Asset Portfolio for the purpose of diversification; provided, however, that the currency exposure of the Asset Portfolio shall at all times be neutral to the Benchmark currency with a maximum divergence of plus or minus 0.5 per cent per currency.

(b) Cross hedging is not allowed.

5. **Eligible Instruments**

The Manager shall have the authority to trade, buy, sell, acquire, hold or dispose of the following securities and instruments in the following categories:

(a) Treasury bills and bonds (except mortgage-backed securities) issued by governments, and entities that are explicitly government guaranteed or 100 per cent owned by governments including but not limited to the consequently eligible agencies and quasi-sovereigns.

(b) Issues of supranational organizations and international development institutions.

(c) Current accounts and call accounts. Such accounts are allowed only with the Custodian.

(d) Short-term instruments, meaning time deposits, certificates of deposit, floating rate notes and commercial paper.

(e) Spot and forward contracts for the purchase and sale of currency.

(f) Interest rate swaps for the hedging of the Asset Portfolio's security positions.

(g) Credit default swaps for the hedging of the Asset Portfolio's security positions (buying protection only).

(h) Futures contracts and options for currencies and fixed-income securities. Such contracts are only allowed to the extent that they are traded on regulated exchanges.

6. **Credit Quality**

(a) Eligible instruments as defined in paragraph 5(a) and 5(b) must have a long-term rating of Baa3 or better by Moody's or BBB- or better by Standard & Poor's or by Fitch.

(b) Counterparties for eligible instruments outlined in paragraphs 5(d) to 5(g) must have a minimum short-term rating of P-1 by Moody's or A-1 by Standard & Poor's or F1 by Fitch. Additionally, counterparties for eligible instruments outlined in paragraphs 5(f) and 5(g) must have a minimum long-term rating of Aa3 or better by Moody's or AA- or better by Standard & Poor's or by Fitch.

(c) For each security that falls below the minimum levels defined in paragraphs 5(a) and 5(b) above, subsequent to the date of purchase of a security, the Manager shall dispose of said security within thirty (30) days of the date of downgrading by the rating agency.

7. **Minimum and Maximum Portfolio Duration**

(a) The overall duration of the Asset Portfolio may be no lower than zero, and no higher than two years above benchmark duration.

(b) The maximum duration refers to the overall Asset Portfolio and not to individual securities.

(c) The duration of any individual security may never be less than zero.

(d) The duration of each security held in the Asset Portfolio shall be calculated on the basis of all pertinent characteristics including price, coupon (floating or fixed), maturity and redemption provisions.

8. **Diversification**

(a) The maximum amount that may be invested in any debt issue, at all times, shall not exceed 10 per cent of the net asset value of the Asset Portfolio. This limitation does not apply to government issues of France, Germany, Japan, the United States of America and the United Kingdom.

(b) The maximum amount that may be invested in any specific debt issue shall not exceed 10 per cent of the total amount of the issue.

(c) The maximum amount that may be deposited with any single bank at any time, including the Custodian, shall not exceed US$30 million or equivalent.

9. **Other Provisions**

(a) Overdrafts shall not be authorized except in the case of failed trades. Failed trades shall immediately be notified in writing to both IFAD and the Custodian.

(b) The Asset Portfolio may not be leveraged.

(c) Future contracts and options may not be used to lever the Asset Portfolio.

(d) Options may not be written.

(e) All derivatives including forward contracts must be traded following the latest standards issued by the International Swaps and Derivatives Association (ISDA).

(f) The Manager shall not charge IFAD for any transaction costs.

(g) The Manager is prohibited from entering into any security lending arrangement.

(h) The Manager is prohibited from investing in IFAD non-Member States.

10. **Clearing for Futures and Options**

(a) The Manager shall clear all futures contracts and options through JP Morgan Securities Ltd. (JPMSL).

(b) In connection with the foregoing, the Manager shall enter into give-up agreements with JPMSL.

(c) The Manager shall provide JPMSL with a list of authorized trading and operations personnel (updated as appropriate) from whom JPMSL may accept instructions.

(d) The Manager shall reconcile JPMSL's statements and report any discrepancies to JPMSL on a daily basis and in its monthly report.

(e) The Manager shall instruct the Custodian and inform JPMSL with regard to daily margin movements and reconcile same with JPMSL.

(f) The Manager shall ensure that collateral is provided in cash or other securities accepted by the relevant exchange.

(g) The Manager shall close out positions on a FIFO (first in, first out) basis, provided, however, that in the event that the Manager wishes to close out positions on a special basis, it must so notify JPMSL and the Custodian.

(h) The Manager shall ensure that all trades are settled on a T+1 basis unless otherwise determined between the Manager and JPMSL.

(i) The Manager shall pay commissions on fixed-income related products to JPMSL as set out in the fee schedule for fixed-income related products, attached hereto as annex I.

(j) The Manager's margin accounts opened on behalf of IFAD and in connection with these instructions shall have interest credited and debited to them in accordance with the rates negotiated between IFAD and JPMSL as set out in the Interest Rate Schedule, attached hereto as annex II.

The Manager shall in any case remain responsible for selecting executing brokers for futures contracts and options pursuant to section 3.05 of the Investment Management Agreement.

INVESTMENT GUIDELINES FOR GLOBAL INFLATION-INDEXED FIXED-INCOME INVESTMENTS

1. **Investment Objectives**

The Manager will actively manage a portfolio of global inflation-indexed fixed income (the Asset Portfolio). The Asset Portfolio's expected excess return (net of fees and over the benchmark) will be at least 0.75 per cent per annum measured over an average, annualized three-year period. The Asset Portfolio will be managed within IFAD's risk budget for inflation-indexed fixed income as indicated in IFAD's Investment Policy Statement (see annex II). The calculation agent for risk measures shall be IFAD using a third-party tool and the measures shall be shared with the Manager on a monthly basis to verify the adherence to the set risk budget. Value-added will be achieved through positioning (duration, yield curve, security selection and country selection) in inflation-indexed bond markets and nominal bond markets.

The Manager shall ensure that investment emphasis is placed upon capital protection, that is, the achievement of adequate investment income, to maintain the purchasing power of the Asset Portfolio over time.

2. **Reporting Currency**

The reporting currency shall be the United States dollar (US$).

3. **Customized Performance Benchmark (the Benchmark)**

The Benchmark used to measure the performance of the Manager shall be the Barclays Capital World Government Inflation-Linked 1-10 years Index.

4. **Eligible Currencies**

a) Currency exposure vis-à-vis the currencies in the Benchmark (the Benchmark currencies) should be hedged 14 per cent to the US dollar, 27 per cent to the euro, 39 per cent to the Japanese yen and 20 per cent to the pound sterling.

b) The Manager may invest in all the currencies of the Benchmark countries (the Benchmark Currencies) and other convertible currencies; provided, however, that, the currency exposure of the Asset Portfolio shall at all times be neutral to the adjusted country weights contained in the Benchmark with a maximum divergence of plus or minus 0.5 per cent per Benchmark Currency.

c) Cross hedging is not allowed.

5. **Eligible Instruments**

Manager shall have the authority to trade, buy, sell or otherwise acquire, hold or dispose of the following securities and instruments in the following categories:

(a) Inflation-Indexed Credit Market securities issued in respect of the inflation indices of the countries included in the customized Barclay's Global Inflation Linked Bond Index, and other countries meeting the credit rating criteria specified in section 6, Credit Quality.

(b) Treasury bills and bonds (inflation-indexed and non-inflation-indexed, except mortgage backed securities) issued by national governments, and entities that are explicitly government guaranteed or 100 per cent owned by governments including but not limited to the consequently eligible agencies and quasi-sovereigns.

(c) Issues of supranational organizations and international development institutions.

(d) Current accounts and call accounts shall only be held with the Custodian.

(e) Short-term instruments, meaning time deposits, certificates of deposit, floating rate notes and commercial paper.

(f) Spot and forward contracts for the purchase and sale of currency.

(g) Interest rate swaps for the hedging of the current Asset Portfolio's security positions.

(h) Futures contracts and options for currencies and fixed-income securities. Such contracts are only allowed to the extent that they are traded on regulated exchanges.

6. **Credit Quality**

(a) Eligible Instruments as defined in paragraph 5(a), 5(b) and 5(c) must have a long-term rating of Aa3 or better by Moody's or AA- or better by Standard & Poor's or by Fitch.

(b) Counterparties for the Eligible Instruments outlined in paragraph 5(e), 5(f) and 5(g) must have a minimum short-term rating of P-1 by Moody's or A-1 by Standard & Poor's or F1 by Fitch. Additionally, counterparties for eligible instruments as defined in paragraph 5(g) must have a long-term rating of of Aa3 or better by Moody's or AA- or better by Standard & Poor's or by Fitch.

(c) When the applicable ratings are lowered below these minimum levels subsequent to the date of purchase of a security, the Manager shall dispose of the instrument concerned within thirty (30) days of the date of downgrading by the rating agency.

7. **Minimum and Maximum Portfolio Duration**

(a) The duration contribution of the total inflation-indexed investment may be no lower than zero and no higher than two years above benchmark duration.

(b) The duration of the total Asset Portfolio (inflation-indexed and non-inflation-indexed) may be no lower than zero and no higher than two years above benchmark duration.

(c) The duration of each security held in the Asset Portfolio shall be calculated on the basis of all pertinent characteristics including price, coupon (floating or fixed), maturity and redemption provisions.

8. **Diversification**

(a) Investments in non-inflation-indexed securities shall not exceed 30 per cent of the total month end NAV of the Asset Portfolio.

(b) The maximum amount that may be invested in any debt issue, at all times, shall not exceed 10 per cent of the net asset value of the Asset Portfolio. This limitation does not apply to government issues of France, Germany, Japan, the United States of America and the United Kingdom.

(c) The maximum amount that may be invested in any single specific debt issue shall not exceed 10 per cent of the total amount of the issue.

(d) The maximum amount that may be deposited with any single bank at any time, including the Custodian, shall not exceed US$30 million or equivalent.

9. **Other Provisions**

(a) Overdrafts shall not be authorized except in the case of failed trades. Failed trades shall immediately be notified in writing to both IFAD and the Custodian.

(b) The Asset Portfolio may not be leveraged.

(c) Future contracts and options may not be used to lever the Asset Portfolio.

(d) Options may not be written.

(e) All derivatives including forward contracts must be traded under the latest standards issued by the International Swaps and Derivatives Association (ISDA).

(f) The Manager shall not charge IFAD for any transaction costs.

(g) The Manager is prohibited from entering into any security lending arrangement.

(h) The Manager is prohibited from investing in IFAD non-Member States.

10. **Clearing for Futures and Options**

(a) The Manager shall clear all futures contracts and options through JP Morgan Securities Ltd. (JPMSL).

(b) In connection with the foregoing, the Manager shall enter into give-up agreements with JPMSL.

(c) The Manager shall provide JPMSL with a list of authorized trading and operations personnel (updated as appropriate) from whom JPMSL may accept instructions.

(d) The Manager shall reconcile JPMSL's statements and report any discrepancies to JPMSL on a daily basis and in its monthly report.

(e) The Manager shall instruct the Custodian and inform JPMSL with regard to daily margin movements and reconcile same with JPMSL.

(f) The Manager shall ensure that collateral is provided in cash or other securities accepted by the relevant exchange.

(g) The Manager shall close out positions on a FIFO basis, provided, however, that in the event the Manager wishes to close out positions on a special basis, it must so notify JPMSL and the Custodian.

(h) The Manager shall ensure that all trades are settled on a T+1 basis unless otherwise determined between the Manager and JPMSL.

(i) The Manager shall pay commissions on fixed-income-related products to JPMSL as set out in the Fee Schedule for Fixed-Income-Related Products, attached hereto as annex I.

(j) The Manager's margin accounts opened on behalf of IFAD and in connection with these instructions shall have interest credited and debited to them in accordance with the rates negotiated between IFAD and JPMSL as set out in the Interest Rate Schedule, attached hereto as annex II.

The Manager shall in any case remain responsible for selecting executing brokers for futures contracts and options pursuant to section 3.05 of the Investment Management Agreement.

INVESTMENT GUIDELINES
FOR
GLOBAL DIVERSIFIED FIXED-INCOME INVESTMENTS

1. **Investment Objectives**

The Manager will actively manage a portfolio of global diversified fixed-income securities (the Asset Portfolio). The Asset Portfolio's expected excess return (net of fees and over the benchmark) should be no less than 1.00 per cent per annum measured over an average, annualized three-year period. The Asset Portfolio will be managed within IFAD's risk budget for diversified fixed-income mandate as indicated in IFAD's Investment Policy Statement (see annex II). The calculation agent for risk measures shall be IFAD using a third-party tool and the measures shall be shared with the Manager on a monthly basis to verify adherence to the set risk budget. Value-added will be achieved through positioning (duration, yield curve, security selection, sector selection and country selection) in diversified fixed-income markets and nominal bond markets.

The Manager shall ensure that investment emphasis is placed upon capital protection, that is, the achievement of adequate investment income, to maintain the purchasing power of the Asset Portfolio over time.

2. **Base Currency**

The base currency shall be the United States dollar (US$).

3. **Performance Benchmark**

Customized Barclays Global Aggregate ex. government related instruments below Aa3/AA-, corporate and global government securities below A3/A- and non-agency securitized asset below Aaa/AAA.

4. **Eligible Currencies**

The Manager may invest in all the currencies of the Benchmark countries (the Benchmark Currencies) and other convertible currencies; provided, however, that the currency exposure of the Asset Portfolio shall at all times be neutral to the adjusted country weights contained in the Benchmark with a maximum divergence of plus or minus 0.5 per cent per Benchmark Currency.

5. **Eligible Instruments**

The Manager shall have the authority to trade, buy, sell or otherwise acquire, hold or dispose of the following fixed-interest securities and instruments in the following categories:

(a) Treasury bills and bonds (except mortgage-backed securities) issued by national governments or by entities that are explicitly government guaranteed or 100 per cent owned by the government, including but not limited to the consequently eligible agencies and quasi-sovereigns.

(b) Issues of supranational organizations and international development institutions.

(c) Other fixed-income investments. For purposes of these Guidelines, Eligible Instruments shall also include: (i) the following fixed-income investments: senior and subordinated debt, Eurobonds, Municipals and Yankees ("Public Corporates") Public Corporates shall be deemed publicly traded liquid investments; and (ii) local government issues.

(d) Mortgage Backed and Asset Related Securities. Limited to securities issued by government agencies. Such investments must be rated no lower than AAA/Aaa by two of the three applicable credit agencies (i.e. Standard & Poor's, Moody's or Fitch).

(e) Rule 144A Securities. Securities that are registered under Rule 144A. The credit rating of these investments shall be no lower than Aa3 by Moody's or AA- by Standard & Poor's or Fitch.

(f) Current accounts and call accounts shall only be held with the Custodian.

(g) Short-term instruments, meaning time deposits, certificates of deposit, floating rate notes and commercial paper.

(h) Spot and forward contracts for the purchase and sale of currency.

(i) Interest rate swaps for the hedging of the current Asset Portfolio's security positions.

(j) Futures contracts and options for currencies and fixed-income securities. Such contracts are only allowed to the extent that they are traded on regulated exchanges.

6. **Credit Quality**

(a) Securities as defined in paragraph 5(a), 5(b) and 5(e) must have a long-term rating of Aa3 or better by Moody's or AA- or better by Standard & Poor's or by Fitch.

(b) Eligible instruments as defined in paragraph 5(c) must have a rating of A3 or better by Moody's or A- or better by Standard & Poor's or by Fitch.

(c) Securities as defined in paragraph 5(d) must have a rating of no lower than AAA/Aaa by two of the three applicable credit agencies (i.e., Standard & Poor's, Moody's or Fitch).

(d) Counterparties for the Eligible Instruments outlined in 5(g), 5(h) and 5(i) must have a minimum short-term rating of P-1 by Moody's or A-1 by Standard & Poor's or F1 by Fitch. Additionally, counterparties for the eligible instruments defined in paragraph 5(i) must have a long-term rating of of Aa3 or better by Moody's or AA- or better by Standard & Poor's or by Fitch.

(e) When a security falls below the minimum levels defined in paragraphs 5(a) - 5(e) above, subsequent to the date of purchase of an instrument, the Manager shall dispose of said security within thirty (30) days of the date of downgrading by the rating agency.

(f) In the event that the Manager deems the security to be illiquid, the Manager shall immediately notify IFAD and provide an exit strategy and a plan of action. For a security deemed illiquid, the 30-day rule for disposing of the security shall be considered temporarily suspended and the Manager shall initiate liquidation of the security only following the improvement in the security's liquidity, or on the basis of other considerations determined by the Manager to be in IFAD's best interest, so as to minimize potential market losses.

7. **Minimum and Maximum Portfolio Duration**

(a) The duration of the portfolio may be no lower than zero, and the overall duration of the portfolio may be no higher than two years above the effective duration of the benchmark.

(b) The duration of each security held with the Asset Portfolio shall be calculated on the basis of all pertinent characteristics including price, coupon (floating or fixed), maturity and redemption provisions.

(c) The duration of mortgage-backed or asset-backed securities shall be the option adjusted duration.

8. **Diversification**

(a) The maximum amount that may be invested in any debt issue, at all times, shall not exceed 10 per cent of the net asset value of the Asset Portfolio. This limitation does not apply to government issues of France, Germany, Japan, the United States of America and the United Kingdom.

(b) The maximum amount that may be invested in any specific debt issue shall not exceed 10 per cent of the total amount of the issue.

(c) The maximum amount that may be deposited with any single bank at any time, including the Custodian, shall not exceed US$30 million.

(d) The maximum amount that may be invested in A-rated corporate securities shall not exceed 20 per cent of the Asset Portfolio.

9. **Other Provisions**

(a) Overdrafts shall not be authorized except in the case of failed trades. Failed trades shall immediately be notified in writing to both IFAD and the Custodian.

(b) The Asset Portfolio may not be leveraged.

(c) Futures contracts and options may not be used to lever the Asset Portfolio.

(d) Options may not be written.

(e) All derivatives including forward contracts must be traded following the latest standards issued by the International Swaps and Derivatives Association (ISDA).

(f) The Manager shall not charge IFAD for any transaction costs.

(g) The Manager is prohibited from entering into any security lending arrangement.

(h) The Manager is prohibited from investing in IFAD non-Member States.

(i) At the time of purchase, the minimum face amount of any securities shall be no less than US$200,000 or equivalent.

(j) The Manager shall only invest in liquid securities. That is, the purchase of any individual security shall meet the liquidity objectives of the investment portfolio. Measurements such as trading volume of a particular security, the number of broker/dealers providing two-way markets in the security, typical bid/ask spreads and similar measures shall be used to gauge the overall liquidity of an issue.

(k) The Manager shall not invest in any securities if the outstanding amount of the issue is less than US$250 million or equivalent.

10. **Clearing for Futures and Options**

(a) The Manager shall clear all futures contracts and options through JP Morgan Securities Ltd. (JPMSL).

(b) In connection with the foregoing, the Manager shall enter into give-up agreements with JPMSL.

(c) The Manager shall provide JPMSL with a list of authorized trading and operations personnel (updated as appropriate) from whom JPMSL may accept instructions.

(d) The Manager shall reconcile JPMSL's statements and report any discrepancies to JPMSL on a daily basis and in its monthly report.

(e) The Manager shall instruct the Custodian and inform JPMSL with regard to daily margin movements and reconcile same with JPMSL.

(f) The Manager shall ensure that collateral is provided in cash or other securities accepted by the relevant exchange.

(g) The Manager shall close out positions on a FIFO basis, provided, however, that in the event the Manager wishes to close out positions on a special basis, it must so notify JPMSL and the Custodian.

(h) The Manager shall ensure that all trades are settled on a T+1 basis unless otherwise determined between the Manager and JPMSL.

(i) The Manager shall pay commissions on fixed-income related products to JPMSL as set out in the Fee Schedule for Fixed-Income Related Products, attached hereto as annex I.

(j) The Manager's margin accounts opened on behalf of IFAD and in connection with these instructions shall have interest credited and debited to them in accordance with the rates negotiated between IFAD and JPMSL as set out in the Interest Rate Schedule, attached hereto as annex II.

The Manager shall in any case remain responsible for selecting executing brokers for futures contracts and options pursuant to section 3.05 of the Investment Management Agreement.