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Report on IFAD's investment portfolio for the first and second quarters of 2013

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For: Information

Report on IFAD's investment portfolio for the second quarter of 2013

I. Executive summary

1. During the first six months of 2013, investments have been carried out well within the risk measures used for risk-budgeting purposes as set out in the Investment Policy Statement (IPS). At 30 June 2013, the conditional value-at-risk (CVaR) was at 2.85 per cent and well within the risk budget level of 6.00 per cent.
2. The value of IFAD's investment portfolio in United States dollar terms decreased by US\$166.2 million, from US\$2,188.0 million at 31 March 2013 to US\$2,021.8 million at 30 June 2013. The main factors in this decrease were net outflows (as a result of increased disbursements), negative investment income (unrealized market losses) and foreign exchange movements.
3. As at 30 June 2013, the investment portfolio's year-to-date net rate of return was a negative 1.51 per cent, translating into a negative investment income amount of US\$35.8 million, net of all investment-related fees.

II. Market conditions

4. The **global government-bonds asset class** performance was negative during the second quarter of 2013, with the positive return in April being offset in May and June, when markets were dominated by the Federal Reserve discussion on tapering quantitative easing. While no fixed tapering plans are yet in place, this has driven up government bond yields substantially in the United States and Europe, and has also had a yield impact on other asset classes.
5. The **global diversified fixed-income asset class** had a negative performance driven by the portfolio's longer duration and the substantial portion of global government bonds within the benchmark.
6. The **global inflation-indexed asset class** also performed poorly. Overall, almost all inflation-indexed markets underperformed their nominal counterparts, with real and nominal yields being up significantly across all markets. Inflation breakeven rates continued to decrease, making return on inflation-linked bonds negative.
7. The **emerging-market bond asset class** registered the weakest performance, on the back of a "risk-off" phase¹ due to the uncertainty that dominated developed markets and the substantial yield rises mentioned previously. The decline in emerging-market asset prices was compounded by a sharp decline in trading liquidity and a reversal of consistent fund inflows to significant outflows. Nevertheless, emerging markets on the whole maintain a stronger fundamental footing than their peers in developed countries.

III. Investment Policy Statement (IPS)

8. As required, the first annual review of the IPS was presented for approval to the 107th session of the Executive Board in December 2012. The second annual review is scheduled to be presented for approval at the 110th session of the Executive Board in December 2013.
9. IFAD is currently assessing the results of an externally performed asset class study in order to propose some changes to help mitigate the prospects of negative performance on fixed-income investments. The strategies developed are based on the external study and complement the preceding analysis performed internally. The internal analysis was conducted to ensure that the investment portfolio, and any

¹ "Risk-off" market sentiment favours perceived lower-risk investments.

potential changes, would support IFAD's growing demand for liquidity in light of IFAD's increasing disbursement flows over the coming years.

IV. Asset allocation

10. During the second quarter of 2013, the overall investment portfolio value in United States dollar terms decreased by US\$166.2 million – from US\$2,188.0 million at 31 March 2013 to US\$2,021.8 million at 30 June 2013. This decrease was the result of net outflows of US\$125.9 million, together with negative investment income of US\$35.8 million and foreign exchange movements of minus US\$4.5 million.

Table 1

Movements affecting asset allocation within the portfolio during the second quarter of 2013

(Thousands of United States dollars equivalent)

	<i>Operational cash^a</i>	<i>Global strategic portfolio</i>	<i>Global government bonds</i>	<i>Global diversified fixed-income bonds</i>	<i>Global inflation-indexed bonds</i>	<i>Emerging-market debt bonds</i>	<i>Total</i>
Opening balance (31 March 2013)	181 364	346 327	743 930	311 676	448 412	156 241	2 187 950
Investment income ^b	1	1 799	(1 632)	(5 823)	(19 938)	(10 168)	(35 761)
Transfers due to allocation	89 239	27 786	(57 025)	-	(60 000)	-	-
Transfers due to expense allocation	(978)	55	336	185	267	135	-
Net outflows ^c	(125 890)	-	-	-	-	-	(125 890)
Movements on exchange	1 334	687	(999)	(3 048)	(2 508)	33	(4 501)
Closing balance (30 June 2013)	145 070	376 654	684 610	302 990	366 233	146 241	2 021 798
Actual asset allocation (percentage)	7.2	18.6	33.9	15.0	18.1	7.2	100.0
Investment-policy asset allocation (percentage)	7.0	17.0	36.0	13.0	20.0	7.0	100.0
Difference in allocation (percentage)	0.2	1.6	(2.1)	2.0	(1.9)	0.2	-

^a Cash and time deposits held with banks, readily available for disbursing loans, grants and administrative expenses.

^b Investment income is further detailed in table 2.

^c Net outflows consist of disbursements for loans, grants and administrative expenses net of cash receipts and encashment of Member State contributions.

11. In order to cover disbursement needs during the second quarter of 2013, US\$89.3 million was transferred into the operational cash portfolio during the months of April and May 2013. These funds were transferred from the global inflation-linked bonds portfolio (US\$35.0 million), the global government bonds portfolio (US\$32.0 million) and the global strategic portfolio (US\$22.3 million).
12. In order to mitigate the prospects of negative "marked-to-market" performance on fixed-income investments, US\$25.0 million was transferred in June 2013 from the global government bond portfolio and US\$25.0 million from the global inflation-linked bond portfolio (total US\$50.0 million) to the global strategic portfolio for reinvestment in short-term instruments.

V. Investment income

13. During the first six months of 2013, net investment income amounted to minus US\$32.5 million equivalent, inclusive of all investment-related fees. Net investment income of a positive US\$3.2 million equivalent generated in the first quarter of 2013 was offset by losses incurred during the second quarter of 2013 of US\$35.8 million equivalent.

14. Table 2 presents a summary of second quarter 2013 investment losses broken down by asset class, together with a year-to-date total that captures positive income generated during the first quarter of 2013.

Table 2

Breakdown of investment income by asset class during the second quarter of 2013

(Thousands of United States dollars equivalent)

	<i>Operational cash</i>	<i>Global strategic portfolio</i>	<i>Global government bonds</i>	<i>Global diversified fixed-income bonds</i>	<i>Global inflation-indexed bonds</i>	<i>Emerging-market debt bonds</i>	<i>Second quarter 2013</i>	<i>Year-to-date 30 June 2013</i>
Interest from fixed-income investments and bank accounts	23	2 093	3 806	2 265	1 165	1 902	11 254	22 735
Realized market gains/(losses)	-	-	1 686	579	(246)	(635)	1 384	(170)
Unrealized market gains/(losses)	-	-	(6 788)	(8 482)	(20 590)	(11 300)	(47 160)	(52 577)
Amortization*	-	(239)	-	-	-	-	(239)	(453)
Investment income before fees	23	1 854	(1 296)	(5 638)	(19 671)	(10 033)	(34 761)	(30 465)
Investment manager fees	-	-	(211)	(133)	(191)	(106)	(641)	(1 301)
Custody fees/bank charges	(22)	(10)	(35)	(13)	(25)	(10)	(115)	(288)
Financial advisory and other investment-related fees	-	(45)	(90)	(39)	(51)	(19)	(244)	(487)
Investment income after fees	1	1 799	(1 632)	(5 823)	(19 938)	(10 168)	(35 761)	(32 541)

* A period's amortization amount represents a portion of the difference between the purchase price and the final redemption value of the global strategic portfolio, which is reported at amortized cost.

VI. Rate of return

15. The rate of return on IFAD's investment portfolio is calculated in local currency terms without reflecting the impact of foreign exchange movements, which is neutralized through the currency alignment of IFAD's assets and liabilities to the special drawing rights (SDR) currency ratios (see section VII.E.).

Table 3

Twelve-month quarterly performances with year-to-date annual performance versus benchmark

(Percentages in local currency terms)

	2012		2013		30 June 2013 year-to-date		
	<i>Third quarter</i>	<i>Fourth quarter</i>	<i>First quarter</i>	<i>Second quarter</i>	<i>Portfolio</i>	<i>Benchmark</i>	<i>Difference</i>
Operational cash	0.04	0.01	0.03	0.01	0.04	0.04	-
Global strategic portfolio	0.64	1.00	0.57	0.55	1.12	1.09	0.03
Global government bonds	0.50	0.21	0.15	(0.20)	(0.05)	(0.08)	0.03
Global diversified fixed-income bonds	1.88	0.47	0.27	(1.84)	(1.58)	(0.87)	(0.71)
Global inflation-indexed bonds	1.82	0.79	0.97	(4.72)	(3.79)	(3.86)	0.07
Emerging-market debt bonds	3.74	2.19	(2.17)	(6.42)	(8.45)	(7.60)	(0.85)
Net rate of return	1.19	0.58	0.18	(1.69)	(1.51)	(1.36)	(0.15)

16. Despite a modest return of a positive 0.18 per cent during the first quarter of 2013, the year-to-date rate of return as at 30 June 2013 was minus 1.51 per cent, net of all investment-related expenses. For the same period, the year-to-date benchmark performance was minus 1.36 per cent.
17. Both the emerging-market debt and global diversified fixed-income portfolios underperformed their respective benchmarks, although being well within their authorized tracking error limits (see section VII.C.). The remaining portfolios all modestly outperformed their respective benchmarks.

VII. Risk measurements

18. In accordance with the IPS, risk measures used for risk-budgeting purposes are the CVaR and the ex ante tracking error, which are reported in subsections B. and C. below. In addition, other risk indicators are reported in sections A., D., E. and F.

A. Market risk: Duration

19. Duration² is defined as the weighted average of the time to each coupon and principal payment of a bond. As a result, the longer the duration, the more the bond's price is sensitive to movements in market interest rates. Thus a longer duration is normally associated with higher risk. IFAD assesses the optimal asset class duration in line with risk budget levels, and IFAD's investment guidelines set duration limits versus benchmarks.

Table 4

IFAD's investment portfolio and benchmark effective duration as at 30 June 2013

(Duration in number of years)

	<i>Portfolio</i>	<i>Benchmark</i>
Global government bonds	1.81	1.85
Global diversified fixed-income bonds	4.60	4.19
Global inflation-indexed bonds	6.08	5.25
Emerging-market debt bonds	6.96	6.60
Total portfolio (including global strategic portfolio and operational cash)	2.91	2.72

Note: Total portfolio duration is lowered by the operational cash and global strategic portfolios, which are not subject to fluctuations in prices.

20. Overall portfolio duration was 2.91 years, which is a conservative positioning (table 4).

B. Market risk: Conditional value-at-risk (CVaR)

21. The one-year CVaR at 95 per cent is a measure of the potential average expected loss of a portfolio under extreme conditions (the so-called 'left tail'). It gives an indication of how much value a portfolio could lose, on average, over a forward-looking one-year horizon with a 95-per-cent confidence level. To derive this measure, the portfolio is revalued (stressed) assuming a large number of market condition scenarios affecting its value. For example, a CVaR of 4.0 per cent on a portfolio of US\$1,000,000 means there is a 95-per-cent chance that the average loss of the portfolio will not exceed US\$40,000 in one year.

² The measure of the price sensitivity of a fixed-income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows. Duration is measured in years.

Table 5

Conditional value-at-risk (CVaR) of current asset classes

(Confidence level at 95 per cent, percentages, based on historical simulations over five-year history)

	<i>Actual investment portfolio</i>	<i>IPS budget level</i>
	<i>1-year CVaR</i>	<i>1-year CVaR</i>
Global government bonds	1.99	4.00
Global diversified fixed-income bonds	5.64	15.00
Global inflation-indexed bonds	7.79	9.00
Emerging-market debt bonds	13.53	27.00
Total portfolio (including global strategic portfolio and operational cash)	2.85	6.00

22. The CVaRs of single asset classes and of the overall portfolio were all below risk budget levels.

C. Market risk: Ex ante tracking error

23. The ex ante tracking error is calculated based on the expected portfolio and benchmark returns over a forward-looking one-year horizon. It gives an indication of the difference between an active strategy and its benchmark. The more a portfolio differs from the benchmark upon which it is based, the more likely it is to under- or outperform that same benchmark. For example, a one-year forward-looking ex ante tracking error of 0.2 per cent means that, over the coming year, the portfolio excess return over the benchmark is expected to be in the range of +/- 0.2 per cent of its mean value.

Table 6

IFAD's investment portfolio ex ante tracking error as at 30 June 2013

(Percentages)

	<i>Actual investment portfolio</i>	<i>IPS budget level</i>
Global government bonds	0.64	1.50
Global diversified fixed-income bonds	0.69	3.00
Global inflation-indexed bonds	0.74	2.50
Emerging-market debt bonds	0.82	4.00

24. The current levels of ex ante tracking error are all below budget levels. This indicates a close resemblance of the portfolio strategy to the benchmark indices.

D. Credit risk: Credit-rating analysis

25. IFAD's IPS establishes credit-rating floors for all eligible asset classes. Credit risk is managed through the monitoring of securities in accordance with investment guidelines. Should a security be downgraded below IFAD's minimum credit rating, procedures are in place to limit market losses through divestment.

Table 7

Composition of the investment portfolio by credit ratings^a as at 30 June 2013

(Thousands of United States dollars equivalent)

	<i>Operational cash</i>	<i>Global strategic portfolio</i>	<i>Global government bonds</i>	<i>Global diversified fixed-income bonds</i>	<i>Global inflation-indexed bonds</i>	<i>Emerging-market debt</i>	<i>Total</i>	<i>Percentage</i>
AAA	-	118 188	557 672	183 160	297 239	-	1 156 259	67.3
AA+/-	-	111 997	104 938	77 509	65 044	26 851	386 340	22.5
A+/-	-	-	-	59 480	-	9 740	69 220	4.0
BBB+/-	-	-	-	-	-	106 888	106 888	6.2
Cash ^b	145 070	80 606	23 263	5 802	4 550	2 660	261 950	n/a
Time deposits	-	75 808	-	-	-	-	75 808	n/a
Pending sales and purchases ^c	-	(9 945)	(1 263)	(22 961)	(600)	102	(34 668)	n/a
Total	145 070	376 654	684 610	302 990	366 233	146 241	2 021 798	100.0

^a In accordance with IFAD's current investment guidelines, the credit ratings used in this report are based on the best credit ratings available from Standard and Poor's (S&P), Moody's or Fitch Ratings. The global strategic portfolio is more conservative and reports the lowest credit rating of the three agencies.

^b Consists of cash equivalents and cash with central banks, corporate banks and cash held by external portfolio managers. These amounts are not rated by credit-rating agencies.

^c Pending foreign-exchange purchases and sales used for hedging purposes and trades pending settlement. These amounts do not have an applicable credit rating.

Note: n/a = not applicable.

E. Currency risk: Currency composition analysis

26. The majority of IFAD's commitments pertain to undisbursed loans and grants and are expressed in SDR. In order to immunize IFAD's balance sheet against currency fluctuations, the Fund's assets are maintained, to the extent possible, in the same currencies and ratios of the Fund's commitments, i.e. in SDR.
27. At 30 June 2013, the net asset amount consisting of cash, investments, promissory notes and contribution receivables from Member States (net of provisions), less commitments denominated in United States dollars, amounted to US\$2,471.4 million.

Table 8

Currency composition of net assets in the form of cash, investments and other receivables

(Thousands of United States dollars equivalent)

	<i>United States dollar group^b</i>	<i>Euro group^c</i>	<i>Japanese yen</i>	<i>Pound sterling</i>	<i>Total</i>
Cash and investments ^a	939 946	641 726	166 009	273 679	2 021 360
Promissory notes	205 691	59 355	45 893	-	310 939
Contribution receivables from Member States	101 207	180 396	29 848	-	311 451
Less: commitments denominated in US dollars	(172 392)	-	-	-	(172 392)
Net asset amount	1 074 452	881 477	241 750	273 679	2 471 358
Net asset amount (percentage)	43.5	35.6	9.8	11.1	100.0
SDR weights (percentage)	44.1	36.7	8.1	11.1	100.0
Difference (percentage)	(0.6)	(1.1)	1.7	0.0	0.0

^a The difference in the "cash and investments" balance compared with other tables derives from the exclusion of assets in non-convertible currencies of US\$438,000 equivalent (cash and investments).

^b Includes assets in Australian, Canadian and New Zealand dollars.

^c Includes assets in Swiss francs, Swedish kronor, and Danish and Norwegian kroner.

28. As at 30 June 2013, there was a shortfall in the United States dollar currency group of 0.6 per cent and in the euro currency group of 1.1 per cent. This was offset by an excess allocation in Japanese yen of 1.7 per cent.

F. Liquidity risk: Minimum liquidity requirement

29. IFAD's liquidity risk is addressed through the minimum liquidity requirement (MLR). IFAD's liquidity policy,³ together with the revised Ninth Replenishment period (2013-2015) MLR, states that IFAD's investment portfolio should remain above 60 per cent of the projected annual gross disbursement level (outflows), including potential additional requirements due to liquidity shocks.
30. IFAD's latest financial model assumptions, incorporating the 2012 financial statements, calculate an MLR of US\$605.0 million. This is comfortably cleared by IFAD's investment portfolio balance of US\$2,021.8 million (see table 1).

³ EB 2006/89/R.40.

Report on IFAD's investment portfolio for the first quarter of 2013

I. Executive summary

1. The value of the investment portfolio in United States dollar terms decreased by US\$81.7 million, from US\$2,269.6 million at 31 December 2012 to US\$2,187.9 million at 31 March 2013. The main factors in this decrease were net outflows and foreign exchange movements, which were partially offset by positive net investment income.
2. The investment portfolio's net rate of return for the first quarter of 2013 was 0.18 per cent and translates into a net investment income of US\$3.2 million for the same period.

II. Asset allocation

3. During the first quarter of 2013, the investment portfolio value in United States dollar terms decreased by US\$81.7 million. This decrease was the result of net outflows of US\$31.9 million and foreign exchange movements of US\$53.0 million, which were partially offset by investment income of US\$3.2 million.

Table 1

Movements affecting asset allocation within the portfolio during the first quarter of 2013

(Thousands of United States dollars equivalent)

	<i>Operational cash^a</i>	<i>Global strategic portfolio</i>	<i>Global government bonds</i>	<i>Global diversified fixed-income bonds</i>	<i>Global inflation-indexed bonds</i>	<i>Emerging-market debt bonds</i>	<i>Total</i>
Opening balance (31 December 2012)	194 806	373 555	762 797	318 681	459 430	160 355	2 269 624
Net investment income ^b	8	1 936	648	528	3 748	(3 648)	3 220
Transfers due to allocation	23 900	(23 900)	-	-	-	-	-
Transfers due to expense allocation	(1 049)	60	359	190	299	141	-
Net outflows ^c	(31 861)	-	-	-	-	-	(31 861)
Movements on exchange	(4 440)	(5 324)	(19 874)	(7 723)	(15 065)	(607)	(53 033)
Closing balance (31 March 2013)	181 364	346 327	743 930	311 676	448 412	156 241	2 187 950
Actual asset allocation (percentage)	8.3	15.9	34.0	14.2	20.5	7.1	100.0
Investment policy asset allocation (percentage)	7.0	17.0	36.0	13.0	20.0	7.0	100.0
Difference in allocation (percentage)	1.3	(1.1)	(2.0)	1.2	0.5	0.1	-

^a Cash and time deposits held with banks, readily available for disbursing loans, grants and administrative expenses.^b Net investment income is further detailed in table 2.^c Net outflows consist of disbursements for loans, grants and administrative expenses net of cash receipts and encashment of Member State contributions.

4. During the first quarter of 2013, US\$23.9 million was transferred from the global strategic portfolio to the operational cash portfolio in order to cover disbursement needs.

III. Investment income

5. In the first quarter of 2013, net investment income amounted to US\$3.2 million, inclusive of all investment-related fees. Table 2 presents a summary of the investment income broken down by asset class.

Table 2
Breakdown of investment income by asset class during the first quarter of 2013
 (Thousands of United States dollars equivalent)

	<i>Operational cash</i>	<i>Global strategic portfolio</i>	<i>Global government bonds</i>	<i>Global diversified fixed-income bonds</i>	<i>Global inflation-indexed bonds</i>	<i>Emerging-market debt bonds</i>	<i>Total</i>
Interest from fixed-income investments and bank accounts	35	2 210	4 023	2 219	1 136	1 858	11 481
Realized market gains/(losses)	-	-	(2 505)	(519)	1 556	(86)	(1 554)
Unrealized market gains/(losses)	-	-	(511)	(982)	1 355	(5 279)	(5 417)
Amortization ^a	-	(214)	-	-	-	-	(214)
Investment income before fees	35	1 996	1 007	718	4 047	(3 507)	4 296
Investment manager fees	-	-	(214)	(133)	(206)	(107)	(660)
Custody fees/bank charges	(27)	(17)	(55)	(20)	(39)	(15)	(173)
Financial advisory and other investment-related fees	-	(43)	(90)	(37)	(54)	(19)	(243)
Investment income after fees	8	1 936	648	528	3 748	(3 648)	3 220

^a A period's amortization amount represents a portion of the difference between the purchase price and the final redemption value of the global strategic portfolio, which is reported at amortized cost.

IV. Rate of return

6. The rate of return on IFAD's investment portfolio is calculated in local currency terms without reflecting the impact of foreign exchange movements, which is neutralized through the currency alignment of IFAD's assets and liabilities to the special drawing rights (SDR) currency ratios (see section V.E.).

Table 3
Quarterly performances for 2012 with first quarter 2013 performance versus benchmark
 (Percentages in local currency terms)

	2012				First quarter 2013		
	<i>First quarter</i>	<i>Second quarter</i>	<i>Third quarter</i>	<i>Fourth quarter</i>	<i>First quarter portfolio</i>	<i>First quarter benchmark</i>	<i>Difference</i>
Operational cash	0.03	0.04	0.04	0.01	0.03	0.03	-
Global strategic portfolio	1.22	0.51	0.64	1.00	0.57	0.58	(0.02)
Global government bonds	0.48	0.44	0.50	0.21	0.15	0.12	0.03
Global diversified fixed-income bonds	(0.09)	2.00	1.88	0.47	0.27	0.48	(0.21)
Global inflation-indexed bonds	1.06	0.98	1.82	0.79	0.97	0.91	0.06
Emerging-market debt bonds	n/a	n/a	3.74	2.19	(2.17)	(1.82)	(0.35)
Net rate of return	0.54	0.77	1.19	0.58	0.18	0.22	(0.04)

Note: n/a = not applicable.

7. The investment portfolio returned a positive 0.18 per cent during the first quarter of 2013, net of all investment-related expenses. For the same period, the benchmark return was a positive 0.22 per cent.

8. The only negatively performing asset class was the emerging-market debt portfolio. The conservative nature of and diversification within IFAD's investment portfolio mean that other mandates would offset this negative performance, as illustrated in the overall positive performance.

V. Risk measurements

9. In accordance with the IPS, risk measures used for risk-budgeting purposes are conditional value-at-risk (CVaR) and the ex ante tracking error, which are reported in subsections B. and C. below. In addition, other risk indicators are reported in sections A., D., E. and F.

A. Market risk: Duration

10. Duration⁴ is defined as the weighted average of the time to each coupon and principal payment of a bond. As a result, the longer the duration, the more the bond's price is sensitive to movements in market interest rates. Thus a longer duration is normally associated with higher risk. IFAD assesses the optimal asset class duration in line with risk budget levels, and IFAD's investment guidelines set duration limits versus benchmarks.

Table 4

IFAD's investment portfolio and benchmark effective duration as at 31 March 2013
(Duration in number of years)

	<i>Portfolio</i>	<i>Benchmark</i>
Global government bonds	1.50	1.91
Global diversified fixed-income bonds	3.96	4.08
Global inflation-indexed bonds	5.51	5.41
Emerging-market debt bonds	7.13	6.58
Total portfolio (including global strategic portfolio and operational cash)	2.71	2.76

Note: Total portfolio duration is lowered by the operational cash and global strategic portfolios, which are not subject to fluctuations in prices.

11. Overall portfolio duration was 2.71 years, which is a conservative positioning (table 4).

B. Market risk: Conditional value-at-risk (CVaR)

12. The one-year CVaR at 95 per cent is a measure of the potential average expected loss of a portfolio under extreme conditions (the so-called 'left tail'). It gives an indication of how much value a portfolio could lose, on average, over a forward-looking one-year horizon with a 95 per cent confidence level. To derive this measure, the portfolio is revalued (stressed) assuming a large number of market condition scenarios affecting its value. For example, a CVaR of 4.0 per cent on a portfolio of US\$1,000,000 means there is a 95 per cent chance that the average loss of the portfolio will not exceed US\$40,000 in one year.

⁴ The measure of the price sensitivity of a fixed-income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows. Duration is measured in years.

Table 5
Conditional value-at-risk (CVaR) of current asset classes
 (Confidence level at 95 per cent, percentages, based on historical simulations over five-year history)

	<i>Actual investment portfolio</i>	<i>IPS budget level</i>
	<i>1-year CVaR</i>	<i>1-year CVaR</i>
Global government bonds	1.74	4.00
Global diversified fixed-income bonds	5.15	15.00
Global inflation-indexed bonds	6.02	9.00
Emerging-market debt bonds	10.81	27.00
Total portfolio (including global strategic portfolio and operational cash)	2.29	6.00

13. The CVaRs of single asset classes and of the overall portfolio were all below risk budget levels.

C. Market risk: Ex ante tracking error

14. The ex ante tracking error is calculated based on the expected portfolio and benchmark returns over a forward-looking one-year horizon. It gives an indication of the difference between an active strategy and its benchmark. The more a portfolio differs from the benchmark upon which it is based, the more likely it is to under- or outperform that same benchmark. For example, a one-year forward-looking ex ante tracking error of 0.2 per cent means that, over the coming year, the portfolio excess return over the benchmark is expected to be in the range of +/- 0.2 per cent of its mean value.

Table 6
IFAD's investment portfolio ex ante tracking error as at 31 March 2013
 (Percentages)

	<i>Actual investment portfolio</i>	<i>IPS budget level</i>
Global government bonds	0.47	1.50
Global diversified fixed-income bonds	0.78	3.00
Global inflation-indexed bonds	0.64	2.50
Emerging-market debt bonds	0.83	4.00

15. The current levels of ex ante tracking error are below budget levels. This indicates a close resemblance of the portfolio strategy to the benchmark indices.

D. Credit risk: Credit-rating analysis

16. IFAD's IPS establishes credit-rating floors for all eligible asset classes. Credit risk is managed through the monitoring of securities in accordance with investment guidelines. Should a security be downgraded below IFAD's minimum credit rating, procedures are in place to limit market losses through divestment.

Table 7
Composition of the investment portfolio by credit ratings^a as at 31 March 2013
 (Thousands of United States dollars equivalent)

	<i>Operational cash</i>	<i>Global strategic portfolio</i>	<i>Global government bonds</i>	<i>Global diversified fixed-income bonds</i>	<i>Global inflation-indexed bonds</i>	<i>Emerging-market debt</i>	<i>Total</i>	<i>Percentage</i>
AAA	-	125 631	657 931	200 436	414 792	-	1 398 790	74.9
AA+/-	-	111 668	51 878	69 720	16 642	35 212	285 120	15.3
A+/-	-	-	-	61 107	-	16 774	77 881	4.2
BBB+/-	-	-	-	-	-	103 753	103 753	5.6
Cash ^b	181 364	294	33 969	2 174	18 558	598	236 957	n/a
Time deposits	-	108 734	-	-	-	-	108 734	n/a
Pending sales and purchases ^c	-	-	152	(21 761)	(1 580)	(96)	(23 285)	n/a
Total	181 364	346 327	743 930	311 676	448 412	156 241	2 187 950	100.0

^a In accordance with IFAD's current investment guidelines, the credit ratings used in this report are based on the best credit ratings available from Standard and Poor's (S&P), Moody's or Fitch Ratings. The global strategic portfolio is more conservative and reports the lowest credit rating of the three agencies.

^b Consists of cash equivalents and cash with central banks, corporate banks and cash held by external portfolio managers. These amounts are not rated by credit-rating agencies.

^c Pending foreign-exchange purchases and sales used for hedging purposes and trades pending settlement. These amounts do not have an applicable credit rating.

Note: n/a = not applicable.

E. Currency risk: Currency composition analysis

- The majority of IFAD's commitments pertain to undisbursed loans and grants and are expressed in SDR. In order to immunize IFAD's balance sheet against currency fluctuations, the Fund's assets are maintained, to the extent possible, in the same currencies and ratios of the Fund's commitments, i.e. in SDR.
- At 31 March 2013, the net asset amount consisting of cash, investments, promissory notes and contribution receivables from Member States (net of provisions), less commitments denominated in United States dollars, amounted to US\$2,608.2 million.

Table 8
Currency composition of net assets in the form of cash, investments and other receivables
 (Thousands of United States dollars equivalent)

	<i>United States dollar group^b</i>	<i>Euro group^c</i>	<i>Japanese yen</i>	<i>Pound sterling</i>	<i>Total</i>
Cash and investments ^a	1 001 809	705 651	188 968	291 080	2 187 508
Promissory notes	187 488	59 355	45 893	-	292 737
Contribution receivables from Member States	100 887	180 396	29 849	-	311 131
Less: commitments denominated in US dollars	(183 194)	-	-	-	(183 194)
Net asset amount	1 106 990	945 402	264 710	291 080	2 608 182
Net asset amount (percentage)	42.4	36.3	10.2	11.1	100.0
SDR weights (percentage)	44.0	36.3	8.6	11.1	100.0
Difference (percentage)	(1.6)	0.0	1.6	0.0	0.0

^a The difference in the "cash and investments" balance compared with other tables derives from the exclusion of assets in non-convertible currencies of US\$442,000 equivalent (cash and investments).

^b Includes assets in Australian, Canadian and New Zealand dollars.

^c Includes assets in Swiss francs, Swedish kronor, and Danish and Norwegian kroner.

19. As at 31 March 2013, there was a shortfall in the United States dollar currency group of 1.6 per cent, which was offset by an excess allocation in Japanese yen of 1.6 per cent.

F. Liquidity risk: Minimum liquidity requirement

20. IFAD's liquidity risk is addressed through the minimum liquidity requirement (MLR). IFAD's liquidity policy,⁵ together with the revised Ninth Replenishment period (2013-2015) MLR, states that IFAD's investment portfolio should remain above 60 per cent of the projected annual gross disbursement level (outflows), including potential additional requirements due to liquidity shocks.
21. IFAD's latest financial model assumptions, incorporating the 2012 financial statements, calculate an MLR of US\$605.0 million. This is comfortably cleared by IFAD's investment portfolio balance of US\$2,187.9 million (see table 1).

⁵ EB 2006/89/R.40.