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Investing in rural people

Report on IFAD's investment portfolio for the first and second quarters of 2014

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For: **Information**

Report on IFAD's investment portfolio for the second quarter of 2014

I. Executive summary

1. During the second quarter of 2014, the value of the investment portfolio in United States dollar terms decreased by US\$71.6 million, from US\$2,030.9 million at 31 March 2014 to US\$1,959.3 million at 30 June 2014. The main factors for this decrease were negative net flows¹ offset by positive investment income and foreign exchange movements (see section IV).
2. During the second quarter of 2014, IFAD's investment portfolio performed positively with a net rate of return of 1.28 per cent, translating into an investment income of US\$25.1 million, net of all investment-related fees.
3. During the first semester of 2014, investment portfolio performance was 2.28 per cent, translating into an investment income of US\$44.9 million, net of all investment-related fees.
4. Increased exposure to the emerging market debt portfolio (undertaken in 2013) contributed positively to overall investment performance (see section VI).

II. Market conditions

5. The global government bond asset class registered a positive performance of 0.25 per cent over the period. The positive return was achieved mainly in May, when government bond yields sharply declined due to lower global growth expectations and a policy of further monetary easing by the European Central Bank. Against all expectations, at the beginning of 2014, developed market central banks did not seem to intend to tighten monetary policy any time soon, which would have negatively impacted fixed-income investors such as IFAD. April and June were generally good months for fixed-income investments; however, due to IFAD's short duration in this asset class, impact in these months was marginal.
6. The global diversified fixed-income asset class returned a positive 1.89 per cent, with the investment-grade corporate sector performing very well during April and May. Generally stabilizing economic data from the United States and the United Kingdom helped corporate credit perform well.
7. The global inflation-indexed asset class registered a positive performance of 2.45 per cent over the quarter, with the strongest performance registered in May due to the general performance of government bonds and the long duration of this portfolio.
8. The emerging market government bond asset class returned 4.17 per cent, and was again the strongest performer among the asset classes over the quarter. Supportive financial conditions in the developed market are believed to be the key drivers of the strong returns of emerging market debt so far this year.
9. During the second quarter of 2014, the United States dollar depreciated against the British pound sterling (-2.50 per cent) and the Japanese yen (-1.63 per cent) and appreciated against the euro (+0.66 per cent). These trends resulted in overall positive foreign exchange movements in IFAD's investment portfolio (see table 1).
10. It must be noted that the currency fluctuations affecting IFAD's assets are offset by similar fluctuations for IFAD's liabilities and are therefore neutralized on an asset liability level. Consequently, the income and performance of IFAD's investment portfolio are reported in local currency terms.

¹ Net flows consist of outflows for disbursements for loans, grants and administrative expenses and inflows from loan reflows and encashment of Member States' contributions.

III. Investment policy statement review

11. The 2014 annual review of the IFAD Investment Policy Statement (IPS) has concluded and will be submitted for approval to the 113th session of the Executive Board in December 2014.

IV. Asset allocation

12. During the second quarter of 2014, the value of the investment portfolio in United States dollar terms decreased by US\$71.6 million. This was the result of net outflows of US\$101.1 million, net investment income of US\$25.1 million and foreign exchange movements of US\$4.4 million.

Table 1

Movements affecting asset allocation within the portfolio during the second quarter of 2014
(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 (1 April 2014)	203 327	293 247	680 539	256 707	380 189	216 893	2 030 902
Net investment income ^b	34	1 210	1 230	4 677	9 114	8 858	25 123
Transfers due to expense allocation	(916)	49	299	149	240	179	-
Net flows ^c	(101 118)	-	-	-	-	-	(101 118)
Movements on exchange	(520)	709	1 406	688	2 257	(94)	4 446
Closing balance (30 June 2014)	100 807	295 215	683 474	262 221	391 800	225 836	1 959 353
Actual asset allocation (percentage)	5.1	15.1	34.9	13.4	20.0	11.5	100.0
Investment policy asset allocation (percentage)	7.0	17.0	36.0	10.0	20.0	10.0	100.0
Difference in allocation (percentage)	(1.9)	(1.9)	(1.1)	3.4	0.0	1.5	-

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

^b Investment income is further detailed in table 2.

^c Net flows consist of outflows for disbursements for loans, grants and administrative expenses and inflows from loan reflows and encashment of Member States' contributions.

V. Investment income

13. Net investment income in the second quarter of 2014 amounted to US\$25.1 million, inclusive of all investment-related fees. Table 2 presents a summary broken down by asset class.
14. Combined with net positive investment income of US\$19.8 million generated in the first quarter of 2014 (see annex table 2), net investment income for the first six months of 2014 was US\$44.9 million as shown in table 2 below.

Table 2

Breakdown of investment income by asset class during the second quarter of 2014 and year-to-date total for 2014

(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 2014</i>	<i>Total year-to-date 2014</i>
Interest from fixed-income investments and bank accounts	59	1 421	2 941	2 182	909	2 768	10 280	20 855
Realized market gains/(losses)	-	-	(2 663)	(72)	(7)	(249)	(2 991)	(11 480)
Unrealized market gains/(losses)	-	-	1 249	2 716	8 453	6 518	18 936	37 812
Amortization*	-	(163)	-	-	-	-	(163)	(344)
Investment income before fees	59	1 258	1 527	4 826	9 355	9 037	26 062	46 843
Investment manager fees	-	-	(182)	(108)	(168)	(142)	(600)	(1 215)
Custody fees/bank charges	(25)	(13)	(35)	(10)	(27)	(11)	(121)	(250)
Financial advisory & other investment-related fees	-	(35)	(80)	(31)	(46)	(26)	(218)	(437)
Investment income after fees	34	1 210	1 230	4 677	9 114	8 858	25 123	44 941

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

VI. Rate of return

- The rate of return of 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).
- The investment portfolio generated a positive performance net of all investment-related expenses of 1.28 per cent during the second quarter of 2014, versus a benchmark of 1.09 per cent for the same period.
- Combined with the first quarter performance of 0.99 per cent (see annex table 3), the net rate of return for the year-to-date period was 2.28 per cent, versus a benchmark of 1.93 per cent for the same period as shown in table 3 below.

Table 3

First and second quarter 2014 performances versus benchmarks, together with year-to-date performances versus benchmarks

(Percentages in local currency terms)

	<i>First quarter 2014</i>		<i>Second quarter 2014</i>		<i>Year-to-date 2014</i>		
	<i>Actual</i>	<i>Benchmark</i>	<i>Actual</i>	<i>Benchmark</i>	<i>Actual</i>	<i>Benchmark</i>	<i>Difference</i>
Operational cash	0.04	0.04	0.06	0.06	0.09	0.09	-
Global strategic portfolio	0.51	0.42	0.43	0.37	0.94	0.79	0.15
Global government bonds	0.14	0.08	0.25	0.10	0.38	0.19	0.19
Global diversified fixed-income bonds	1.97	1.57	1.89	1.93	3.89	3.53	0.36
Global inflation-indexed bonds	1.26	1.14	2.45	2.22	3.75	3.39	0.36
Emerging market debt bonds	4.16	3.85	4.17	4.02	8.50	8.03	0.47
Gross rate of return (excluding fees)	1.03	0.80	1.32	1.14	2.37	2.02	0.35
Net rate of return (including fees)	0.99	0.76	1.28	1.09	2.28	1.93	0.35

18. For comparative purposes, table 4 presents annual performances generated by the investment portfolio during the previous four years.

Table 4

Annual performances versus benchmarks from 2010 to 2013 for comparative purposes
(Percentages in local currency terms)

	2013		2012		2011		2010	
	Actual	Bench-mark	Actual	Bench-mark	Actual	Bench-mark	Actual	Bench-mark
Operational cash	0.07	0.07	0.12	0.12	0.56	0.56	0.25	0.25
Global strategic portfolio	2.13	1.94	3.41	2.94	2.91	3.56	4.00	3.81
Global government bonds	0.34	0.16	1.63	1.51	2.42	2.36	2.19	2.00
Global diversified fixed-income bonds	(0.04)	0.32	4.31	3.46	7.28	7.67	6.10	5.77
Global inflation-indexed bonds	(4.23)	(3.99)	4.73	6.13	6.97	6.84	4.07	5.00
Emerging market debt bonds	(7.49)	(6.54)	6.01	4.83	n.a.	n.a.	n.a.	n.a.
Gross rate of return (excluding fees)	(0.95)	(0.83)	3.28	3.16	4.01	4.13	3.40	3.34
Net rate of return (including all fees)	(1.11)	(0.99)	3.11	2.99	3.82	3.94	3.26	3.20

VII. Risk measurements

19. In accordance with the IPS, the 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 subsections A, D, E and F.

A. Market risk: Duration

20. Duration is a measure of the sensitivity of the market price of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. The longer the duration, the more the bond's price is sensitive to movements of 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 5

IFAD's investment portfolio and benchmark effective duration as at 31 December 2013 and 30 June 2014

(Duration in number of years)

	31 December 2013		30 June 2014	
	Portfolio	Benchmark	Portfolio	Benchmark
Global government bonds	0.92	0.99	0.72	0.97
Global diversified fixed-income bonds	4.42	4.35	4.42	4.56
Global inflation-indexed bonds	5.42	5.11	5.40	5.14
Emerging market debt bonds	6.54	6.31	6.99	6.85
Total portfolio (including global strategic portfolio and operational cash)	2.59	2.44	2.73	2.52

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

21. The overall portfolio duration was 2.73 years (2.59 years in 2013), which is a conservative positioning.

B. Market risk: Conditional value-at-risk

22. 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 6.0 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\$60,000 in one year.

Table 6

CVaR of current asset classes as at 31 December 2013 and 30 June 2014

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

	<i>Actual investment portfolio one-year CVaR</i>		<i>One-year CVaR IPS budget level</i>
	<i>31 December 2013</i>	<i>30 June 2014</i>	
Global government bonds	1.07	0.87	4.00
Global diversified fixed-income bonds	5.73	5.27	15.00
Global inflation-indexed bonds	6.87	6.35	9.00
Emerging market debt bonds	10.69	9.71	27.00
Total portfolio (including global strategic portfolio and operational cash)	2.76	2.55	6.00

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

C. Market risk: Ex ante tracking error

24. The ex ante tracking error gives an indication of how different an active strategy is from its benchmark. The more a portfolio differs from the benchmark on 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 7

IFAD's investment portfolio ex ante tracking error as at 31 December 2013 and 30 June 2014

(Percentages)

	<i>Actual investment portfolio</i>		<i>IPS budget level</i>
	<i>31 December 2013</i>	<i>30 June 2014</i>	
Global government bonds	0.37	0.34	1.50
Global diversified fixed-income bonds	0.94	0.65	3.00
Global inflation-indexed bonds	0.45	0.57	2.50
Emerging market debt bonds	1.19	0.92	4.00

25. The current levels of ex ante tracking error are below budget levels, indicating a close resemblance of the portfolio strategy to the benchmark indices.

D. Credit risk: Credit rating analysis

26. 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 8

Investment portfolio composition by credit ratings^a as at 30 June 2014

(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	-	61 254	414 591	33 359	278 391	2 053	789 648	40.3
AA+/-	-	91 985	251 193	52 130	103 356	36 285	534 949	27.3
A+/-	-	-	-	172 087	-	36 198	208 285	10.6
BBB+/-	-	-	-	-	-	148 415	148 415	7.6
Cash ^b	100 807	42 091	22 391	5 721	8 624	3 752	183 386	9.4
P-1 (time deposits) ^c	-	99 885	-	-	-	-	99 885	5.1
Pending sales and purchases ^d	-	-	(4 701)	(1 076)	1 429	(867)	(5 215)	(0.3)
Total	100 807	295 215	683 474	262 221	391 800	225 836	1 959 353	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 the Standard and Poor's (S&P), Moody's or Fitch rating agencies. The global strategic portfolio is more conservative and reports the lowest credit rating of the three above-mentioned 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 Short-term as opposed to long-term credit ratings are applied to time deposits. All time deposits are within the highest credit rating available from Moody's (i.e. P-1) or the equivalent from S&P and Fitch rating agencies.

^d Pending foreign exchange purchases and sales used for hedging purposes and trades pending settlement. Although these amounts do not have an applicable credit rating, foreign exchange counterparties or banks used to purchase currencies also have the highest credit rating available from Moody's (i.e. P-1) or the equivalent from S&P and Fitch rating agencies.

E. Currency risk: Currency composition analysis

27. The majority of IFAD's commitments pertain to undisbursed loans and grants and are expressed in SDRs. 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 as the Fund's commitments, i.e. in SDRs.
28. At 30 June 2014, 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\$2,300.0 million.

Table 9

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

(Thousands of United States dollars equivalent)

<i>Currency</i>	<i>United States dollar group^b</i>	<i>Euro group^c</i>	<i>Yen</i>	<i>Pound sterling</i>	<i>Total</i>
Cash and investments ^a	913 706	668 065	135 750	241 391	1 958 912
Promissory notes	106 920	30 265	43 902	29 143	210 230
Contribution receivables from Member States	120 317	153 092	-	29 143	302 552
Less: commitments denominated in US dollars	(171 689)	-	-	-	(171 689)
Net asset amount	969 254	851 422	179 652	299 677	2 300 005
Net asset amount (percentage)	42.2	37.0	7.8	13.0	100.0
SDR weights (percentage)	42.7	37.4	7.7	12.2	100.0
Difference (percentage)	(0.5)	(0.4)	0.1	0.8	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\$440,000 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.

F. Liquidity risk: Minimum liquidity requirement

29. IFAD's liquidity risk is addressed through the minimum liquidity requirement (MLR). IFAD's liquidity policy² 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 2013 resources available for commitment under the sustainable cash flow approach, calculate an MLR of US\$595.0 million,³ which is comfortably cleared by IFAD's investment portfolio balance of US\$1,959.3 million (see table 1).

² EB 2006/89/R.40.

³ EB 2013/110/R.15.

Report on IFAD's investment portfolio for the first quarter of 2014

I. Executive summary

1. During the first quarter of 2014, the value of the investment portfolio in United States dollar terms increased by US\$53.1 million, from US\$1,977.8 million at 31 December 2013 to US\$2,030.9 million at 31 March 2014. The main factors for this increase were positive net flows,¹ investment income and foreign exchange movements (see section IV).
2. During the period, IFAD's investment portfolio performed positively with a net rate of return of 0.99 per cent, translating into an investment income of US\$19.8 million, net of all investment-related fees. Specifically, increased exposure to emerging market debt contributed positively to investment performance (see section VI).

II. Market conditions

3. The global government bond asset class registered a positive performance of 0.14 per cent over the period. The positive return was achieved mainly in January when gradual tapering by the United States and fears of a slowdown in economic growth in China contributed to a decreased risk appetite of investors. February and March continued to be good months for fixed income in general, with a slight increase in risk appetite. Short- and medium-term government bond yields rose significantly. Thanks to its short duration, IFAD's global government bond portfolio was well protected from the rise in yields.
4. The global diversified fixed-income asset class returned positive 1.97 per cent, with the investment grade corporate sector performing very well during January and February and showing a slightly negative performance in March 2014. IFAD's investment portfolio benefited from longer-duration and tightening credit spreads.
5. The global inflation-indexed asset class registered a positive performance of 1.26 per cent over the quarter with the strongest performance registered in January and February due to the general rebound of government bonds.
6. The emerging market government bond asset class returned 4.16 per cent, the strongest performance among the asset classes over the quarter, despite the adverse market sentiment towards riskier assets at the beginning of the year. January saw significant outflows mostly affecting local currency funds, but IFAD's hard currency emerging market debt investments were less affected.
7. During the first quarter of 2014, the United States dollar depreciated against the British pound sterling (- 0.87 per cent) and the Japanese yen (-1.95 per cent) and appreciated against the euro (+0.23 per cent). These trends resulted in overall slightly positive foreign exchange movements in IFAD's investment portfolio (see table 1).
8. It must be noted that the currency fluctuations affecting IFAD's assets are offset by similar fluctuations for IFAD's liabilities and are therefore neutralized on an asset liability level. Consequently, the income and performance of IFAD's investment portfolio are reported in local currency terms.

III. Investment policy statement review

9. The next annual review of the IFAD Investment Policy Statement (IPS) will be submitted for approval at the 113th session of the Executive Board in December 2014.

¹ Net flows consist of outflows for disbursements for loans, grants and administrative expenses and inflows from loan reflows and encashment of Member States' contributions.

10. IFAD has already started the review process and will continue to focus on mitigating the prospects of negative performance while supporting IFAD's growing demand for liquidity in the light of a forecasted increase in disbursements over the coming years.

IV. Asset allocation

11. During the first quarter of 2014, the value of the investment portfolio in United States dollar terms increased by US\$53.1 million. This was the result of net inflows of US\$28.5 million, net investment income of US\$19.8 million and foreign exchange movements of US\$4.8 million.

Table 1

Movements affecting asset allocation within the portfolio during the first quarter of 2014
(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 (1 January 2014)	162 883	303 027	678 225	251 714	373 724	208 181	1 977 754
Net investment income ^b	49	1 437	586	4 795	4 482	8 469	19 818
Transfers due to allocation	11 650	(11 650)	-	-	-	-	-
Transfers due to expense allocation	(938)	47	309	157	243	182	-
Net flows ^c	28 491	-	-	-	-	-	28 491
Movements on exchange	1 192	386	1 419	41	1 740	61	4 839
Closing balance (31 March 2014)	203 327	293 247	680 539	256 707	380 189	216 893	2 030 902
Actual asset allocation (percentage)	10.0	14.4	33.5	12.6	18.8	10.7	100.0
Investment policy asset allocation (percentage)	7.0	17.0	36.0	10.0	20.0	10.0	100.0
Difference in allocation (percentage)	3.0	(2.6)	(2.5)	2.6	(1.2)	0.7	-

^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 flows consist of outflows for disbursements for loans, grants and administrative expenses and inflows from loan reflows and encashment of Member States' contributions.

12. In January 2014, US\$11.6 million was transferred from the global strategic portfolio to the operational cash portfolio to cover projected disbursement requirements.

V. Investment income

13. Net investment income in the first quarter of 2014 amounted to US\$19.8 million, inclusive of all investment-related fees. Table 2 presents a summary broken down by asset class.

Table 2
Breakdown of investment income by asset class during the first quarter of 2014
 (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	74	1 665	2 994	2 193	944	2 705	10 575
Realized market gains/(losses)	-	-	(4 145)	(348)	(2 184)	(1 812)	(8 489)
Unrealized market gains/(losses)	-	-	2 046	3 107	5 965	7 758	18 876
Amortization ^a	-	(181)	-	-	-	-	(181)
Investment income before fees	74	1 484	895	4 952	4 725	8 651	20 781
Investment manager fees	-	-	(189)	(111)	(172)	(143)	(615)
Custody fees/bank charges	(25)	(11)	(39)	(15)	(26)	(13)	(129)
Financial advisory & other investment-related fees	-	(36)	(81)	(31)	(45)	(26)	(219)
Investment income after fees	49	1 437	586	4 795	4 482	8 469	19 818

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

VI. Rate of return

- The rate of return of 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 IFAD's liabilities to the (special drawing rights) SDR currency ratios (see section VIII.E).
- The investment portfolio generated a performance net of all investment-related expenses of 0.99 per cent during the first quarter of 2014, versus a benchmark of 0.76 per cent for the same period.

Table 3
First quarter 2014 performance versus benchmark together with quarterly performances for 2013 for comparative purposes
 (Percentages in local currency terms)

	<i>Quarterly performances for 2013</i>				<i>First quarter 2014</i>		
	<i>First quarter</i>	<i>Second quarter</i>	<i>Third quarter</i>	<i>Fourth quarter</i>	<i>Actual</i>	<i>Benchmark</i>	<i>Difference</i>
Operational cash	0.03	0.01	0.01	0.03	0.04	0.04	-
Global strategic portfolio	0.57	0.55	0.48	0.42	0.51	0.42	0.09
Global government bonds	0.15	(0.20)	0.17	0.22	0.14	0.08	0.06
Global diversified fixed-income bonds	0.27	(1.84)	0.94	0.62	1.97	1.57	0.40
Global inflation-indexed bonds	0.97	(4.72)	0.59	(1.04)	1.26	1.14	0.12
Emerging market debt bonds	(2.17)	(6.42)	0.66	0.39	4.16	3.85	0.31
Net rate of return	0.18	(1.69)	0.40	0.00	0.99	0.76	0.23

16. For comparative purposes, table 4 presents the annual performances generated by the investment portfolio during the previous four years.

Table 4
Annual performances versus benchmark from 2010 to 2013 for comparative purposes
 (Percentages in local currency terms)

	2013		2012		2011		2010	
	<i>Actual</i>	<i>Bench- mark</i>	<i>Actual</i>	<i>Bench- mark</i>	<i>Actual</i>	<i>Bench- mark</i>	<i>Actual</i>	<i>Bench- mark</i>
Operational cash	0.07	0.07	0.12	0.12	0.56	0.56	0.25	0.25
Global strategic portfolio	2.13	1.94	3.41	2.94	2.91	3.56	4.00	3.81
Global government bonds	0.34	0.16	1.63	1.51	2.42	2.36	2.19	2.00
Global diversified fixed-income bonds	(0.04)	0.32	4.31	3.46	7.28	7.67	6.10	5.77
Global inflation-indexed bonds	(4.23)	(3.99)	4.73	6.13	6.97	6.84	4.07	5.00
Emerging market debt bonds	(7.49)	(6.54)	6.01	4.83	n.a.	n.a.	n.a.	n.a.
Gross rate of return (excluding fees)	(0.95)	(0.83)	3.28	3.16	4.01	4.13	3.40	3.34
Net rate of return (including all fees)	(1.11)	(0.99)	3.11	2.99	3.82	3.94	3.26	3.20

VII. Risk measurements

17. In accordance with the IPS, the 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 subsections A, D, E and F.

A. Market risk: Duration

18. Duration is a measure of the sensitivity of the market price of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. The longer the duration, the more the bond's price is sensitive to movements of 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 5
IFAD's investment portfolio and benchmark effective duration as at 31 December 2013 and 31 March 2014
 (Duration in number of years)

	31 December 2013		31 March 2014	
	Portfolio	Benchmark	Portfolio	Benchmark
Global government bonds	0.92	0.99	1.06	1.04
Global diversified fixed-income bonds	4.42	4.35	4.61	4.52
Global inflation-indexed bonds	5.42	5.11	5.53	5.18
Emerging market debt bonds	6.54	6.31	6.70	6.69
Total portfolio (including global strategic portfolio and operational cash)	2.59	2.44	2.69	2.53

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

19. The overall portfolio duration was 2.69 years (2.59 years in 2013), which is a conservative positioning.

B. Market risk: Conditional value-at-risk

20. 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 6.0 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\$60,000 in one year.

Table 6
CVaR of current asset classes as at 31 December 2013 and 31 March 2014
 (Confidence level at 95 per cent, percentages based on historical simulations over five-year history)

	Actual investment portfolio one-year CVaR		One-year CVaR IPS budget level
	31 December 2013	31 March 2014	
Global government bonds	1.07	1.17	4.00
Global diversified fixed-income bonds	5.73	5.72	15.00
Global inflation-indexed bonds	6.87	6.56	9.00
Emerging market debt bonds	10.69	10.72	27.00
Total portfolio (including global strategic portfolio and operational cash)	2.76	2.68	6.00

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

C. Market risk: Ex ante tracking error

22. The ex ante tracking error gives an indication of how different an active strategy is from its benchmark. The more a portfolio differs from the benchmark on 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 7

IFAD's investment portfolio ex ante tracking error as at 31 December 2013 and March 2014
(Percentages)

	Actual investment portfolio		IPS budget level
	31 December 2013	31 March 2014	
Global government bonds	0.37	0.40	1.50
Global diversified fixed-income bonds	0.94	0.78	3.00
Global inflation-indexed bonds	0.45	0.69	2.50
Emerging market debt bonds	1.19	1.08	4.00

23. The current levels of ex ante tracking error are below budget levels, indicating a close resemblance of the portfolio strategy to the benchmark indices.

D. Credit risk: Credit rating analysis

24. 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 8

Investment portfolio composition by credit ratings^a as at 31 March 2014
(Thousands of United States dollars equivalent)

	Operational cash	Global strategic portfolio	Global government bonds	Global diversified fixed-income bonds	Global inflation-indexed bonds	Emerging market debt	Total	Percentage
AAA	-	61 242	439 010	30 289	268 981	1 942	801 464	39.5
AA+/-	-	112 393	224 595	54 958	109 441	39 017	540 404	26.6
A+/-	-	-	-	170 027	-	18 801	188 828	9.3
BBB+/-	-	-	-	-	-	158 561	158 561	7.8
Cash ^b	203 327	171	17 557	4 516	5 658	3 496	234 725	11.6
Time deposits	-	119 441	-	-	-	-	119 441	5.9
Pending sales and purchases ^c	-	-	(623)	(3 083)	(3 891)	(4 924)	(12 521)	(0.6)
Total	203 327	293 247	680 539	256 707	380 189	216 893	2 030 902	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 the Standard and Poor's (S&P), Moody's or Fitch rating agencies. The global strategic portfolio is more conservative and reports the lowest credit rating of the three above-mentioned 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.

E. Currency risk: Currency composition analysis

25. The majority of IFAD's commitments pertain to undisbursed loans and grants and are expressed in SDRs. 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 as the Fund's commitments, i.e. in SDRs.

26. At 31 March 2014, 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\$2,425.2 million.

Table 9

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

(Thousands of United States dollars equivalent)

<i>Currency</i>	<i>United States dollar group^b</i>	<i>Euro group^c</i>	<i>Yen</i>	<i>Pound sterling</i>	<i>Total</i>
Cash and investments ^a	954 418	706 238	133 271	236 533	2 030 460
Promissory notes	134 937	63 650	43 186	28 415	270 188
Contribution receivables from Member States	125 211	155 150	-	28 415	308 776
Less: commitments denominated in US dollars	(184 221)	-	-	-	(184 221)
Net asset amount	1 030 345	925 038	176 457	293 363	2 425 203
Net asset amount (percentage)	42.5	38.1	7.3	12.1	100.0
SDR weights (percentage)	42.7	37.8	7.6	11.9	100.0
Difference (percentage)	(0.2)	0.3	(0.3)	0.2	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.

F. Liquidity risk: Minimum liquidity requirement

27. IFAD's liquidity risk is addressed through the minimum liquidity requirement (MLR). IFAD's liquidity policy² 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.
28. IFAD's latest financial model assumptions, incorporating 2013 resources available for commitment under the sustainable cash flow approach, calculate an MLR of US\$595.0 million,³ which is comfortably cleared by IFAD's investment portfolio balance of US\$2,030.9 million (see table 1).

² EB 2006/89/R.40.

³ EB 2013/110/R.15.