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Investing in rural people

## Report on IFAD's investment portfolio for the first and second quarters of 2015

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For: Information

# Report on IFAD's investment portfolio for the second quarter of 2015

## I. Executive summary

1. During the second quarter of 2015, the value of the investment portfolio in United States dollar terms decreased by US\$48.5 million, from US\$1,706.2 million at 31 March 2015 to US\$1,657.7 million at 30 June 2015. The main factors for this decrease were negative net flows<sup>1</sup> and negative investment income offset by positive foreign exchange movements (see section IV).
2. During the period, IFAD's investment portfolio performed negatively with a net rate of return of negative 0.76 per cent, translating into an investment loss of US\$12.1 million, net of all investment-related fees. On a year-to-date basis, the investment portfolio performance was positive 0.14 per cent, compared to a benchmark performance of 0.36 per cent (see section VI).

## II. Market conditions

3. The global government bond portfolio registered a negative performance of 0.39 per cent over the period. As the economic growth outlook brightened in the United States and the eurozone, deflation fears lessened and the Federal Reserve was considered closer to the first interest rate increase since 2006. As a result, highly rated government bonds were negatively affected.
4. The global credit portfolio returned negative 1.25 per cent, with the investment grade corporate sector affected by a reversal in the yields.
5. The global inflation-indexed portfolio registered a negative performance of 0.53 per cent over the quarter, with the strongest negative performance registered in May, due to both nominal and real yields rising in IFAD's preferred investments.
6. The emerging market debt bond portfolio returned negative 1.93 per cent over the quarter. Stronger growth in developed markets caused the sentiment towards emerging markets to deteriorate, particularly in June when emerging market bonds largely declined.
7. The asset liability portfolio returned negative 1.91 per cent as the sharp movement towards higher yields in Europe continued to be particularly pronounced. The portfolio performance was positively affected towards the last few days of the quarter because of the political circumstances affecting the financial markets in the eurozone area.

## III. Investment Policy Statement review

8. The next annual review of IFAD's Investment Policy Statement (IPS) will be submitted for approval to the 116<sup>th</sup> session of the Executive Board in December 2015.
9. IFAD has already started the review process by commissioning an investment strategy analysis to reassess the adequacy of the current asset allocation with continued 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

10. During the second quarter of 2015, the value of the investment portfolio in United States dollar terms decreased by US\$48.5 million. This was the result of net

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

outflows of US\$66.3 million and net investment loss of US\$12.1 million, partially offset by positive foreign exchange movements of US\$30.0 million.

Table 1  
**Movements affecting the portfolio during the second quarter of 2015**  
 (Thousands of United States dollars equivalent)

	<i>Operational cash<sup>a</sup></i>	<i>Global strategic portfolio</i>	<i>Asset liability portfolio</i>	<i>Global government bonds</i>	<i>Global credit portfolio</i>	<i>Global inflation-indexed bonds</i>	<i>Emerging market debt bonds</i>	<i>Total</i>
<b>Opening balance (31 March 2015)</b>	<b>51 831</b>	<b>290 278</b>	<b>107 406</b>	<b>463 730</b>	<b>248 390</b>	<b>318 190</b>	<b>226 374</b>	<b>1 706 199</b>
Net investment income <sup>b</sup>	(3)	1 226	(2265)	(1 789)	(3 099)	(1 754)	(4 486)	(12 170)
Transfers due to allocation	60 505	(15 311)	(194)	(45 000)	-	-	-	-
Transfers due to expense allocation	(766)	42	8	204	145	184	183	-
Net flows <sup>c</sup>	(66 352)	(1)	-	-	1	-	-	(66 352)
Movements on exchange	718	6 015	4 021	9 640	2 861	6 029	764	30 047
<b>Closing balance (30 June 2015)</b>	<b>45 933</b>	<b>282 249</b>	<b>108 976</b>	<b>426 785</b>	<b>248 297</b>	<b>322 649</b>	<b>222 835</b>	<b>1 657 724</b>
Actual asset allocation (percentage)	2.8	17.0	6.6	25.7	15	19.5	13.4	100.0
Investment asset allocation (percentage)	6.5	15.9	6.6	33.6	9.3	18.7	9.3	100.0
<b>Difference in allocation (percentage)</b>	<b>(3.8)</b>	<b>1.1</b>	<b>-</b>	<b>(7.9)</b>	<b>5.6</b>	<b>0.8</b>	<b>4.1</b>	<b>-</b>

<sup>a</sup> Cash and time deposits held with banks, readily available for disbursing loans, grants and administrative expenses.

<sup>b</sup> Investment income is further detailed in table 2.

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

11. During the period, an amount of US\$45.0 million was transferred from global government bonds and US\$15.3 million from the global strategic portfolio into the operational cash portfolio to cover disbursement requirements.

## V. Investment income

12. During the second quarter of 2015 the investment portfolio registered a loss of US\$12.1 million. Table 2 presents a summary of investment income broken down by portfolio.

Table 2

### Breakdown of investment income by portfolio during the second quarter of 2015

(Thousands of United States dollars equivalent)

	<i>Operational cash portfolio</i>	<i>Global strategic portfolio</i>	<i>Asset liability portfolio</i>	<i>Global government bonds</i>	<i>Global credit portfolio</i>	<i>Global inflation- indexed bonds</i>	<i>Emerging market debt bonds</i>	<i>Total</i>
Interest from fixed-income investments and bank accounts	21	1 388	128	1 577	2 122	615	2 611	8 462
Realized market gains/(losses)	-	-	-	694	1 641	583	109	3 027
Unrealized market gains/(losses)	-	-	(2 385)	(3 856)	(6 717)	(2 768)	(7 023)	(22 749)
Amortization	-	(120)	-	-	-	-	-	(120)
<b>Investment income before fees</b>	<b>21</b>	<b>1 268</b>	<b>(2 257)</b>	<b>(1 585)</b>	<b>(2 954)</b>	<b>(1 570)</b>	<b>(4 303)</b>	<b>(11 380)</b>
Investment manager fees	-	-	-	(123)	(105)	(136)	(147)	(511)
Custody fees/bank charges	(24)	(10)	(4)	(32)	(12)	(12)	(11)	(101)
Financial advisory and other investment-related fees	-	(32)	(4)	(49)	(28)	(36)	(25)	(170)
<b>Investment income after fees</b>	<b>(3)</b>	<b>1 226</b>	<b>(2 265)</b>	<b>(1 789)</b>	<b>(3 099)</b>	<b>(1 754)</b>	<b>(4 486)</b>	<b>(12 170)</b>

\* 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

13. 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 with the special drawing rights (SDR) currency ratios (see section VII, E).
14. The investment portfolio generated a performance, net of all investment-related expenses, of negative 0.76 per cent during the second quarter of 2015, versus a benchmark of negative 0.32 per cent for the same period. The second quarter trend is the opposite of the positive performance registered during the first quarter, illustrating the uncertainties and volatility in financial markets.

Table 3  
**First and second quarter 2015 performance versus benchmark together with year-to-date performances versus benchmarks**  
 (Percentages in local currency terms)

	First quarter 2015		Second quarter 2015		Year-to-date 2015		
	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark	Difference
Operational cash	0.04	0.04	0.04	0.04	0.08	0.08	0.00
Global strategic portfolio	0.41	0.33	0.42	0.24	0.83	0.57	0.26
Asset liability portfolio*	0.01	0.00	-1.91	0.11	-1.91	0.11	-2.02
Global government bonds	0.21	0.18	-0.39	0.06	-0.18	0.24	-0.42
Global credit portfolio	1.44	1.56	-1.25	-1.42	0.17	0.12	0.05
Global inflation-indexed bonds	1.38	1.13	-0.53	-0.24	0.84	0.88	-0.04
Emerging market debt bonds	2.35	2.16	-1.93	-1.74	0.37	0.39	-0.02
<b>Gross rate of return (excluding fees)</b>	<b>0.96</b>	<b>0.72</b>	<b>-0.72</b>	<b>-0.27</b>	<b>0.23</b>	<b>0.45</b>	<b>-0.22</b>
<b>Net rate of return (including all fees)</b>	<b>0.91</b>	<b>0.67</b>	<b>-0.76</b>	<b>-0.32</b>	<b>0.14</b>	<b>0.36</b>	<b>-0.22</b>

\* The asset liability portfolio was funded on 19 February 2015 and performance is shown from that date.

15. On a year-to-date basis, the investment portfolio performance was positive 0.14 per cent, compared to a benchmark performance of 0.36 per cent.
16. For comparative purposes, table 4 presents the annual performance results generated by the investment portfolio during the previous four years.

Table 4  
**Annual performance versus benchmark from 2011 to 2014 for comparative purposes**  
 (Percentages in local currency terms)

	2014		2013		2012		2011	
	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark
Operational cash	0.11	0.11	0.07	0.07	0.12	0.12	0.56	0.56
Global strategic portfolio	1.80	1.44	2.13	1.94	3.41	2.94	2.91	3.56
Global government bonds	0.77	0.42	0.34	0.16	1.63	1.51	2.42	2.36
Global credit portfolio	6.13	5.37	(0.04)	(0.32)	4.31	3.46	7.28	7.67
Global inflation-indexed bonds	2.35	2.05	(4.23)	(3.99)	4.73	6.13	6.97	6.84
Emerging market debt bonds	9.44	9.10	(7.49)	(6.54)	6.01	4.83	n.a.	n.a.
<b>Gross rate of return (excluding fees)</b>	<b>2.74</b>	<b>2.24</b>	<b>(0.95)</b>	<b>(0.83)</b>	<b>3.28</b>	<b>3.16</b>	<b>4.01</b>	<b>4.13</b>
<b>Net rate of return (including all fees)</b>	<b>2.58</b>	<b>2.08</b>	<b>(1.11)</b>	<b>(0.99)</b>	<b>3.11</b>	<b>2.99</b>	<b>3.82</b>	<b>3.94</b>

Table 5  
**IFAD's historical portfolio and benchmark performances on a one-year rolling average**  
 (Percentages in local currency terms)

	One year	Three years	Five years
Net portfolio performance	0.43	1.11	1.84
Prescribed benchmark performance	0.53	0.94	1.81
<b>Excess return</b>	<b>-0.10</b>	<b>0.17</b>	<b>0.03</b>

17. Table 5 above presents IFAD's historical long-term net portfolio performances in comparison to the prescribed benchmarks.

## VII. Risk measurements

18. 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

19. Duration is a measure of the sensitivity of the price (the value of principal) 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 6

**IFAD's investment portfolio and benchmark effective duration as at 31 March 2015 and 30 June 2015**

(Duration in number of years)

	31 March 2015		30 June 2015	
	Portfolio	Benchmark	Portfolio	Benchmark
Global government bonds	1.0	1.0	1.1	1.0
Global credit portfolio	4.4	4.4	4.1	4.6
Global inflation-indexed bonds	6.0	6.0	6.8	5.4
Emerging market debt bonds	7.2	7.2	6.9	6.7
<b>Total portfolio (including global strategic, asset liability and cash portfolios)</b>	<b>2.9</b>	<b>2.9</b>	<b>3.7</b>	<b>2.9</b>

Note: The total portfolio duration is lowered by the global strategic portfolio, which is held to maturity and therefore not subject to fluctuations in market prices, and by the the operational cash and the asset liability portfolios which were held in cash as at 31 March 2015.

20. The overall portfolio duration was 3.7 years, which is a conservative positioning and increased slightly from the previous quarter due to the investments in the asset liability portfolio.

### B. Market risk: Conditional value-at-risk

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 5 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\$50,000 in one year.

Table 7

**CVaR of current asset classes as at 31 March 2015 and 30 June 2015**

(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 March 2015</i>	<i>30 June 2015</i>	
Global government bonds	1.0	1.2	4.00
Global credit portfolio	4.6	4.5	15.00
Global inflation-indexed bonds	6.7	7.5	9.00
Emerging market debt bonds	8.7	8.2	27.00
<b>Total portfolio (including held-to-maturity bonds and asset liability and cash portfolios)</b>	<b>2.5</b>	<b>3.4</b>	<b>6.00</b>

22. The CVaR of individual portfolios and of the overall portfolio were all below risk budget levels. The overall portfolio CVaR increased slightly from the previous quarter due to the investments in the asset liability portfolio.

### C. Market risk: Ex ante tracking error

23. 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 underperform 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 8

**IFAD's investment portfolio ex ante tracking error as at 31 March 2015 and 30 June 2015**

(Percentages)

	<i>Actual investment portfolio</i>		<i>IPS budget level</i>
	<i>31 March 2015</i>	<i>30 June 2015</i>	
Global government bonds	0.48	0.53	1.50
Global credit portfolio	0.75	0.90	3.00
Global inflation-indexed bonds	0.59	0.90	2.50
Emerging market debt bonds	0.82	0.60	4.00

24. 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

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 9  
**Investment portfolio composition by credit ratings<sup>a</sup> as at 30 June 2015**  
(Thousands of United States dollars equivalent)

	<i>Operational cash portfolio</i>	<i>Global strategic portfolio</i>	<i>Asset liability portfolio</i>	<i>Global government bonds</i>	<i>Global credit portfolio</i>	<i>Global inflation-indexed bonds</i>	<i>Emerging market debt</i>	<i>Total</i>	<i>%</i>
AAA	-	99 780	17 423	256 818	18 366	254 458	-	646 845	39.0
AA+/-	-	80 158	33 641	124 325	32 881	49 533	45 801	366 339	22.1
A+/-	-	35 687	34 380	32 122	168 486	9 213	48 915	328 803	19.8
BBB+/-	-	-	6 894	-	28 532	-	124 842	160 268	9.7
Cash <sup>b</sup>	45 933	27 586	16 639	11 023	7 278	9 622	388	118 467	7.1
Time deposits	-	39 039	-	-	-	-	-	39 039	2.4
Pending sales and purchases <sup>c</sup>	-	-	-	2 496	(7 246)	(177)	2 889	(2 038)	(0.1)
<b>Total</b>	<b>45 933</b>	<b>282 250</b>	<b>108 977</b>	<b>426 784</b>	<b>248 297</b>	<b>322 649</b>	<b>222 835</b>	<b>1 657 723</b>	<b>100.0</b>

<sup>a</sup> 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 rating agencies Standard and Poor's, Moody's or Fitch. The global strategic portfolio is more conservative and reports the lowest credit rating of the three above-mentioned agencies.

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

<sup>c</sup> Pending 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

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 as the Fund's commitments, i.e. in SDR.
27. At 30 June 2015, 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\$1,710.7 million.

Table 10  
**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<sup>b</sup></i>	<i>Euro group<sup>c</sup></i>	<i>Yen</i>	<i>Pound sterling</i>	<i>Total</i>
Cash and investments <sup>a</sup>	827 383	449 657	88 808	182 470	1 548 318
Promissory notes	74 335	-	24 231	26 805	125 372
Contribution receivables from Member States	81 565	80 468	48 085	-	210 119
Less: commitments denominated in US dollars	(173 071)	-	-	-	(173 071)
<b>Net asset amount</b>	<b>810 213</b>	<b>530 125</b>	<b>161 124</b>	<b>209 275</b>	<b>1 710 737</b>
Net asset amount (percentage)	47.4	31.0	9.4	12.2	100.0
SDR weights (percentage)	47.0	33.6	7.0	12.3	100.0
<b>Difference (percentage)</b>	<b>0.4</b>	<b>(2.6)</b>	<b>2.4</b>	<b>(0.1)</b>	<b>0.1</b>

<sup>a</sup> The difference in the cash and investments balance compared with other tables derives from the exclusion of assets in non-convertible currencies (US\$431,055 equivalent) and the asset liability portfolio (US\$108.9 million equivalent). The latter is not subject to the SDR currency alignment as it is maintained in euros in line with its commitments for loans.

<sup>b</sup> Includes assets in Australian, Canadian and New Zealand dollars.

<sup>c</sup> Includes assets in Swiss francs, Swedish kronor, and Danish and Norwegian kroner.



## F. Liquidity risk: Minimum liquidity requirement

28. IFAD's liquidity risk is addressed through the minimum liquidity requirement (MLR). IFAD's liquidity policy<sup>2</sup> 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.
29. IFAD's latest financial model assumptions, incorporating 2014 resources available for commitment under the sustainable cash flow approach, calculate an MLR of US\$608.0 million,<sup>3</sup> which is comfortably cleared by IFAD's investment portfolio balance of US\$1,657.7 million (see table 1).

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<sup>2</sup> EB 2006/89/R.40.

<sup>3</sup> EB 2014/113/R.15/Rev.1.

# Report on IFAD's investment portfolio for the first quarter of 2015

## I. Executive summary

1. During the first quarter of 2015, the value of the investment portfolio in United States dollar terms increased by US\$20.9 million, from US\$1,685.3 million at 31 December 2014 to US\$1,706.2 million at 31 March 2015. The main factors for this increase were positive net flows<sup>1</sup> and investment income offset by negative foreign exchange movements (see section III).
2. During the period, IFAD's investment portfolio performed positively with a net rate of return of 0.91 per cent, translating into an investment income of US\$13.3 million, net of all investment-related fees. The exposure to emerging market (government) debt continues to contribute positively to the investment performance together with the global credit and inflation-indexed portfolios (see section V).

## II. Investment Policy Statement review

3. The next annual review of IFAD's Investment Policy Statement (IPS) will be submitted for approval at the 116<sup>th</sup> session of the Executive Board in December 2015.
4. IFAD has already started the review process by commissioning an investment strategy analysis to reassess the adequacy of the current asset allocation with continued 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.

## III. Asset allocation

5. During the first quarter of 2015, the value of the investment portfolio in United States dollar terms increased by US\$20.9 million. This was the result of net inflows of US\$84.2 million and net investment income of US\$13.3 million, partially offset by foreign exchange movements of negative US\$76.6 million.

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

Table 1  
**Movements affecting asset allocation within the portfolio during the first quarter of 2015**  
 (Thousands of United States dollars equivalent)

	<i>Operational cash<sup>a</sup></i>	<i>Global strategic portfolio</i>	<i>Asset liability portfolio</i>	<i>Global government bonds</i>	<i>Global credit portfolio</i>	<i>Global inflation-indexed bonds</i>	<i>Emerging market debt bonds</i>	<i>Total</i>
<b>Opening balance (31 December 2014)</b>	<b>55 847</b>	<b>280 749</b>	-	<b>515 232</b>	<b>254 158</b>	<b>355 301</b>	<b>223 997</b>	<b>1 685 284</b>
Net investment income <sup>b</sup>	(8)	1 043	6	292	2 810	4 288	4 900	13 331
Transfers due to allocation	29 130	20 870	-	(25 000)	-	(25 000)	-	-
Transfers due to expense allocation	(828)	45	-	234	154	201	194	-
Net flows <sup>c</sup>	(29 733)	-	113 905	-	-	-	-	84 172
Movements on exchange	(2 577)	(12 429)	(6 505)	(27 028)	(8 732)	(16 600)	(2 717)	(76 588)
<b>Closing balance (31 March 2015)</b>	<b>51 831</b>	<b>290 278</b>	<b>107 406</b>	<b>463 730</b>	<b>248 390</b>	<b>318 190</b>	<b>226 374</b>	<b>1 706 199</b>
Actual asset allocation (percentage)	3.0	17.0	6.3	27.2	14.6	18.6	13.3	100.0
Investment asset allocation (percentage)	6.6	15.9	6.3	33.7	9.4	18.7	9.4	100.0
<b>Difference in allocation (percentage)</b>	<b>(3.6)</b>	<b>1.1</b>	-	<b>(6.5)</b>	<b>5.2</b>	<b>(0.1)</b>	<b>3.9</b>	-

<sup>a</sup> Cash and time deposits held with banks, readily available for disbursing loans, grants and administrative expenses.

<sup>b</sup> Investment income is further detailed in table 2.

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

6. During the period, an amount of US\$25.0 million was transferred from both global government bonds and the inflation-indexed portfolio into the operational cash portfolio to cover disbursement requirements.
7. In February 2015, the asset liability portfolio was funded by a loan from KfW Development Bank in the amount of EUR 100.0 million, equivalent to US\$107.4 million as at 31 March 2015. The portfolio is hereby reported in United States dollars with the relevant foreign exchange movements, but the funds are maintained in euro, i.e. the currency of receipt, and will be onlent in euro to avoid any foreign exchange risks.
8. The global diversified fixed-income portfolio has been renamed as the global credit portfolio in line with its current mandate and investment type.

#### IV. Investment income

9. Net investment income in the first quarter of 2015 amounted to US\$13.3 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 2015**  
 (Thousands of United States dollars equivalent)

	<i>Operational cash portfolio</i>	<i>Global strategic portfolio</i>	<i>Asset liability portfolio</i>	<i>Global government bonds</i>	<i>Global credit portfolio</i>	<i>Global inflation-indexed bonds</i>	<i>Emerging market debt bonds</i>	<i>Total</i>
Interest from fixed-income investments and bank accounts	25	1 219	6	1 360	1 965	619	2 560	7 754
Realized market gains/(losses)	-	-	-	(2 691)	973	(640)	(1 443)	(3 801)
Unrealized market gains	-	-	-	1 857	26	4 510	3 977	10 370
Amortization*	-	(131)	-	-	-	-	-	(131)
<b>Investment income before fees</b>	<b>25</b>	<b>1 088</b>	<b>6</b>	<b>526</b>	<b>2 964</b>	<b>4 489</b>	<b>5 094</b>	<b>14 192</b>
Investment manager fees	-	-	-	(140)	(113)	(151)	(156)	(560)
Custody fees/bank charges	(33)	(10)	-	(39)	(13)	(13)	(12)	(120)
Financial advisory and other investment-related fees	-	(35)	-	(55)	(28)	(37)	(26)	(181)
<b>Investment income after fees</b>	<b>(8)</b>	<b>1 043</b>	<b>6</b>	<b>292</b>	<b>2 810</b>	<b>4 288</b>	<b>4 900</b>	<b>13 331</b>

\* 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.

## V. Rate of return

10. 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 with the special drawing rights (SDR) currency ratios (see section VI, E).
11. The investment portfolio generated a performance, net of all investment-related expenses, of 0.91 per cent during the first quarter of 2015, versus a benchmark of 0.67 per cent for the same period.

Table 3  
**First quarter 2015 performance versus benchmark together with quarterly performances for 2014 for comparative purposes**  
 (Percentages in local currency terms)

	<i>Quarterly performances for 2014</i>				<b>First quarter 2015</b>		
	<i>First quarter</i>	<i>Second quarter</i>	<i>Third quarter</i>	<i>Fourth quarter</i>	<b>Actual</b>	<b>Benchmark</b>	<b>Difference</b>
Operational cash	0.04	0.06	0.01	0.01	<b>0.04</b>	<b>0.04</b>	<b>0.00</b>
Global strategic portfolio	0.51	0.43	0.43	0.42	<b>0.41</b>	<b>0.33</b>	<b>0.08</b>
Asset liability portfolio*	n.a.	n.a.	n.a.	n.a.	<b>0.01</b>	<b>0.00</b>	<b>0.01</b>
Global government bonds	0.14	0.25	0.24	0.14	<b>0.21</b>	<b>0.18</b>	<b>0.03</b>
Global credit portfolio	1.97	1.89	0.63	1.52	<b>1.44</b>	<b>1.56</b>	<b>(0.12)</b>
Global inflation-indexed bonds	1.26	2.45	(0.84)	(0.51)	<b>1.38</b>	<b>1.13</b>	<b>0.25</b>
Emerging market debt bonds	4.16	4.17	0.05	0.82	<b>2.35</b>	<b>2.16</b>	<b>0.19</b>
<b>Gross rate of return (excluding fees)</b>	<b>1.03</b>	<b>1.32</b>	<b>0.03</b>	<b>0.33</b>	<b>0.96</b>	<b>0.72</b>	<b>0.24</b>
<b>Net rate of return (including all fees)</b>	<b>0.99</b>	<b>1.28</b>	<b>(0.00)</b>	<b>0.29</b>	<b>0.91</b>	<b>0.67</b>	<b>0.24</b>

\* The asset liability portfolio was funded on 19 February 2015 and performance is shown from that date.

12. For comparative purposes, table 4 presents the annual performance results generated by the investment portfolio during the previous four years.

Table 4  
**Annual performance versus benchmark from 2011 to 2014 for comparative purposes**  
 (Percentages in local currency terms)

	2014		2013		2012		2011	
	<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	0.11	0.11	0.07	0.07	0.12	0.12	0.56	0.56
Global strategic portfolio	1.80	1.44	2.13	1.94	3.41	2.94	2.91	3.56
Global government bonds	0.77	0.42	0.34	0.16	1.63	1.51	2.42	2.36
Global credit portfolio	6.13	5.37	(0.04)	(0.32)	4.31	3.46	7.28	7.67
Global inflation-indexed bonds	2.35	2.05	(4.23)	(3.99)	4.73	6.13	6.97	6.84
Emerging market debt bonds	9.44	9.10	(7.49)	(6.54)	6.01	4.83	n.a.	n.a.
<b>Gross rate of return (excluding fees)</b>	<b>2.74</b>	<b>2.24</b>	<b>(0.95)</b>	<b>(0.83)</b>	<b>3.28</b>	<b>3.16</b>	<b>4.01</b>	<b>4.13</b>
<b>Net rate of return (including all fees)</b>	<b>2.58</b>	<b>2.08</b>	<b>(1.11)</b>	<b>(0.99)</b>	<b>3.11</b>	<b>2.99</b>	<b>3.82</b>	<b>3.94</b>

Table 5  
**IFAD's historical portfolio and benchmark performances on a one-year rolling average**  
 (Percentages in local currency terms)

	<i>One year</i>	<i>Three years</i>	<i>Five years</i>
Net portfolio performance	2.49	1.63	2.28
Prescribed benchmark performance	1.92	1.32	2.16
<b>Excess return</b>	<b>0.57</b>	<b>0.31</b>	<b>0.12</b>

13. Table 5 above presents IFAD's historical long-term net portfolio performances in comparison to the prescribed benchmarks.

## VI. Risk measurements

14. 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

15. Duration is a measure of the sensitivity of the price (the value of principal) 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 6  
**IFAD's investment portfolio and benchmark effective duration as at 31 December 2014 and 31 March 2015**  
 (Duration in number of years)

	31 December 2014		31 March 2015	
	Portfolio	Benchmark	Portfolio	Benchmark
Global government bonds	0.74	0.97	1.00	1.02
Global credit portfolio	4.04	4.57	4.36	4.57
Global inflation-indexed bonds	5.40	5.19	5.99	5.33
Emerging market debt bonds	7.17	6.98	7.24	7.46
<b>Total portfolio (including held-to-maturity bonds and cash portfolios)</b>	<b>2.93</b>	<b>2.54</b>	<b>2.89</b>	<b>2.47</b>

Note: The total portfolio duration is lowered by the global strategic portfolio, which is held to maturity and therefore not subject to fluctuations in market prices, and by the the operational cash and the asset liability portfolios which was held in cash as at 31 March 2015.

16. The overall portfolio duration was 2.89 years (2.93 years in 2014), which is a conservative positioning.

#### B. Market risk: Conditional value-at-risk

17. 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 5.0 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\$50,000 in one year.

Table 7  
**CVaR of current asset classes as at 31 December 2014 and 31 March 2015**  
 (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 2014	31 March 2015	
Global government bonds	0.87	1.00	4.00
Global credit portfolio	4.46	4.61	15.00
Global inflation-indexed bonds	5.74	6.69	9.00
Emerging market debt bonds	9.99	8.68	27.00
<b>Total portfolio (including held-to-maturity bonds and cash portfolios)</b>	<b>2.56</b>	<b>2.51</b>	<b>6.00</b>

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

#### C. Market risk: Ex ante tracking error

19. 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 underperform 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 8  
**IFAD's investment portfolio ex ante tracking error as at 31 December 2014 and March 2015**  
 (Percentages)

	<i>Actual investment portfolio</i>		<i>IPS budget level</i>
	<i>31 December 2014</i>	<i>31 March 2015</i>	
Global government bonds	0.37	0.48	1.50
Global credit portfolio	0.94	0.75	3.00
Global inflation-indexed bonds	0.45	0.59	2.50
Emerging market debt bonds	1.19	0.82	4.00

20. 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

21. 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 9  
**Investment portfolio composition by credit ratings<sup>a</sup> as at 31 March 2015**  
 (Thousands of United States dollars equivalent)

	<i>Operational cash portfolio</i>	<i>Global strategic portfolio</i>	<i>Asset liability portfolio</i>	<i>Global government bonds</i>	<i>Global credit portfolio</i>	<i>Global inflation-indexed bonds</i>	<i>Emerging market debt</i>	<i>Total</i>	<i>%</i>
AAA	-	67 710	-	300 706	22 384	245 578	-	636 378	37.3
AA+/-	-	74 636	-	127 963	30 041	56 224	46 831	335 695	19.7
A+/-	-	34 564	-	24 421	173 471	6 500	49 660	288 616	16.9
BBB+/-	-	-	-	-	21 959	-	125 996	147 955	8.7
Cash <sup>b</sup>	51 831	129	107 406	11 933	2 589	12 416	3 534	189 838	11.1
Time deposits	-	113 239	-	-	-	-	-	113 239	6.6
Pending sales and purchases <sup>c</sup>	-	-	-	(1 293)	(2 054)	(2 528)	353	(5 522)	(0.3)
<b>Total</b>	<b>51 831</b>	<b>290 278</b>	<b>107 406</b>	<b>463 730</b>	<b>248 390</b>	<b>318 190</b>	<b>226 374</b>	<b>1 706 199</b>	<b>100.0</b>

<sup>a</sup> 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 rating agencies Standard and Poor's (S&P), Moody's or Fitch. The global strategic portfolio is more conservative and reports the lowest credit rating of the three above-mentioned agencies.

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

<sup>c</sup> 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

22. 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 as the Fund's commitments, i.e. in SDR.
23. At 31 March 2015, 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\$1,678.1 million.

Table 10  
**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<sup>b</sup></i>	<i>Euro group<sup>c</sup></i>	<i>Yen</i>	<i>Pound sterling</i>	<i>Total</i>
Cash and investments <sup>a</sup>	852 446	472 544	92 194	181 183	1 598 367
Promissory notes	92 585	23 529	24 724	25 302	166 140
Contribution receivables from Member States	54 587	39 853	-	-	94 440
Less: commitments denominated in US dollars	(180 839)	-	-	-	(180 839)
<b>Net asset amount</b>	<b>818 779</b>	<b>535 926</b>	<b>116 918</b>	<b>206 485</b>	<b>1 678 108</b>
Net asset amount (percentage)	48.8	31.9	7.0	12.3	100.0
SDR weights (percentage)	47.9	33.0	7.3	11.8	100.0
<b>Difference (percentage)</b>	<b>0.9</b>	<b>(1.1)</b>	<b>(0.3)</b>	<b>0.5</b>	<b>0.0</b>

<sup>a</sup> The difference in the cash and investments balance compared with other tables derives from the exclusion of assets in non-convertible currencies (US\$426,000 equivalent) and the asset liability portfolio (US\$107.4 million equivalent). The latter is not subject to the SDR currency alignment as it is maintained in euros in line with its commitments for loans.

<sup>b</sup> Includes assets in Australian, Canadian and New Zealand dollars.

<sup>c</sup> Includes assets in Swiss francs, Swedish kronor, and Danish and Norwegian kroner.

## F. Liquidity risk: Minimum liquidity requirement

24. IFAD's liquidity risk is addressed through the minimum liquidity requirement (MLR). IFAD's liquidity policy<sup>2</sup> 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.
25. IFAD's latest financial model assumptions, incorporating 2014 resources available for commitment under the sustainable cash flow approach, calculate an MLR of US\$608.0 million,<sup>3</sup> which is comfortably cleared by IFAD's investment portfolio balance of US\$1,706.2 million (see table 1).

<sup>2</sup> EB 2006/89/R.40.

<sup>3</sup> EB 2014/113/R.15/Rev.1.