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Investing in rural people

Report on IFAD's investment portfolio for the first and second quarters of 2016

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For: Information

Report on IFAD's investment portfolio for the second quarter of 2016

I. Executive summary

1. During the second quarter of 2016, the value of the investment portfolio in United States dollar terms decreased marginally by US\$0.1 million, from US\$1,518.4 million as at 31 March 2016 to US\$1,518.3 million as at 30 June 2016. The main factors for this slight decrease were negative foreign exchange movements and net outflows which almost completely offset investment income (see section II).
2. During the second quarter of 2016, IFAD's investment portfolio generated US\$19.1 million of net investment income that contributed to the year-to-date net investment income of US\$43.5 million (see section III).
3. IFAD's investment portfolio generated a year-to-date net rate of return of 3.09 per cent excluding the Asset Liability Portfolio (ALP) which is not within the strategic asset allocation. During the same period the ALP generated a gross rate of return of 1.80 per cent and the combined total net rate of return is 2.95 per cent (see section IV).

II. Asset allocation

4. During the second quarter of 2016, the value of the investment portfolio in United States dollar terms decreased marginally by US\$0.1 million. This was the result of negative foreign exchange movements including translation into IFAD's reporting currency (the United States dollar) of US\$17.8 million and net outflows of US\$1.4 million including transfers which was almost completely offset by net investment income of US\$19.1 million.
5. During the period US\$57.0 million was transferred from the global government bonds portfolio to fund the new global liquidity portfolio (US\$13.9 million) and the existing global strategic portfolio (US\$17.2 million) with the balance being transferred into the operational cash portfolio to cover disbursement requirements. The internally managed global liquidity portfolio was funded in the second quarter of 2016 to improve the efficiency of liquidity management.
6. In line with IFAD's Investment Policy Statement¹ (IPS), the policy asset allocation presented in table 1 reports the ALP separately. The prescribed exposure to global developed market equities has not been implemented as market conditions did not permit an efficient entry point. Equities exposure has therefore been reallocated into the global government and global inflation-indexed portfolios.

Table 1

Movements affecting the asset allocation within the IFAD portfolio during the second quarter of 2016 (Thousands of United States dollars equivalent)

	<i>Operational cash^a</i>	<i>Global strategic</i>	<i>Global liquidity</i>	<i>Global government</i>	<i>Global credit</i>	<i>Global inflation-indexed</i>	<i>Emerging market debt</i>	Subtotal excluding Asset liability portfolio	<i>Asset liability portfolio</i>	Total including Asset liability portfolio
Opening balance (31 March 2016)	96 826	185 380	-	373 630	255 916	215 096	230 230	1 357 078	161 326	1 518 402
Net investment income	36	821	(13)	427	4 116	3 946	8 957	18 290	808	19 099
Transfers due to expense allocation	24	31	7	180	153	127	188	710	27	736
Net flows ^b	(23 344)	17 188	13 943	(56 999)	-	-	-	(49 212)	47 062	(2 151)
Exchange movements	(2 056)	(4 238)	-	(3 760)	(1 619)	(1 473)	(633)	(13 779)	(3 978)	(17 757)
Closing balance (30 June 2016)	71 485	199 181	13 937	313 478	258 565	217 695	238 742	1 313 083	205 245	1 518 329
Actual asset allocation (percentage)	5.40	15.20	1.06	23.87	19.70	16.60	18.20	100.00		
IPS policy asset allocation (percentage)	4.00	18.00	15.55	15.55	20.00	12.90	14.00	100.00		
Difference in allocation	1.40	(2.80)	(14.49)	8.32	(0.30)	3.70	4.20	-		

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

^b Net flows consist of outflows for portfolio transfers, disbursements for loans, grants, investment and administrative expenses, inter-fund portfolio transfers and inflows from loan reflows and encashment of Member States' contributions.

Note: Numbers in this report have been rounded up or down. There may therefore be discrepancies between the actual totals of the individual amounts in the tables and the totals shown as well as between the numbers in the tables and the numbers given in the corresponding analyses in the text of the annual report. All roundings, totals, percentage changes and key figures were calculated using the complete (un-rounded) underlying data.

¹ Investment Policy Statement: EB 2015/116/R.23.

III. Investment income

7. Year-to-date net investment income amounted to US\$43.5 million, inclusive of investment-related fees and income generated by the ALP. During the second quarter of 2016 the investment portfolio generated US\$19.1 million including US\$0.8 million from the ALP.

Table 2

Breakdown of investment income by asset class during the second quarter and year-to-date 2016

(Thousands of United States dollars equivalent)

	<i>Operational cash</i>	<i>Global strategic</i>	<i>Global liquidity</i>	<i>Global government</i>	<i>Global credit</i>	<i>Global inflation-indexed</i>	<i>Emerging market debt</i>	<i>Asset liability portfolio</i>	Second quarter 2016	Year-to-date 2016
Interest from investments and bank accounts	60	982	11	1 102	1 696	487	2 558	209	7 105	14 545
Realized market gains/(losses)	-	-	-	210	576	305	192	30	1 313	(5 617)
Unrealized market gains	-	-	(17)	(705)	1 997	3 281	6 396	595	11 547	36 360
Amortization	-	(130)	-	-	-	-	-	-	(130)	(268)
Investment income before fees	60	852	(6)	607	4 269	4 073	9 145	835	19 835	45 020
Investment manager fees	-	-	-	(103)	(109)	(92)	(152)	-	(456)	(943)
Custody fees and bank charges	(24)	(9)	(6)	(37)	(15)	(10)	(10)	(10)	(121)	(235)
Financial advisory and investment related fees	-	(22)	(1)	(39)	(29)	(24)	(26)	(17)	(158)	(366)
Investment income after fees	36	821	(13)	427	4 116	3 946	8 957	808	19 099	43 475

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.

IV. Rate of return

8. 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 V, E).
9. In addition, the rates of return are independently calculated by IFAD's Global Custodian using the geometric average methodology that reflects the time weighting of income. This methodology is prescribed by the CFA Institute GIPS.
10. Excluding the ALP, IFAD's investment portfolio generated a performance net of investment-related expenses of 3.09 per cent during the first six months of 2016, versus a benchmark of 2.68 per cent. The ALP generated a gross performance of 1.80 per cent versus a benchmark of 0.12 per cent for the same period. As a result the net rate of return of the entire investment portfolio including ALP was 2.95 per cent.

Table 3
Year-to-date 2016 gross performances versus benchmarks together with one year (historical) quarterly gross performances
 (Percentages in local currency terms)

	<i>One year historical quarterly performances</i>				Year-to-date performance 2016		
	<i>Third quarter 2015</i>	<i>Fourth quarter 2015</i>	<i>First quarter 2016</i>	<i>Second quarter 2016</i>	Actual	Benchmark	Difference
Operational cash	0.03	0.02	0.06	0.09	0.15	0.15	0.00
Global strategic	0.44	0.46	0.44	0.45	0.90	0.53	0.37
Global liquidity ^a	-	-	-	0.02	0.02	0.00	0.02
Global government	0.11	0.12	0.18	0.20	0.37	0.62	(0.25)
Global credit	0.34	0.65	1.80	1.70	3.53	4.13	(0.60)
Global inflation-indexed	(0.79)	(0.90)	2.73	1.99	4.77	4.37	0.41
Emerging market debt	(2.15)	0.62	4.68	4.00	8.88	8.35	0.52
Gross rate of return excluding ALP	(0.34)	0.14	1.70	1.48	3.20	2.79	0.41
Net rate of return excluding ALP	(0.30)	0.09	1.64	1.43	3.09	2.68	0.41
Asset liability portfolio ^b	1.02	0.10	1.22	0.53	1.80	0.12	1.68
Gross rate of return including ALP	(0.25)	0.13	1.65	1.38	3.06	n.a.	n.a.
Net rate of return including ALP	(0.30)	0.09	1.59	1.33	2.95	n.a.	n.a.

^a The Global Liquidity Portfolio (GLP) was funded progressively from 17 May 2016 with performances reported from this date. The GLP benchmark is zero.

^b The Asset Liability Portfolio (ALP) was funded on 19 February 2015 and performances are reported from this date. The ALP benchmark represents the cost of funding and does not reflect the investment universe allowed by the guidelines.

11. For comparative purposes, table 4 presents the annual performance of the investment portfolio during the previous four years.

Table 4
Annual performance versus benchmark from 2012 to 2015
 (Percentages in local currency terms)

	<i>2015</i>		<i>2014</i>		<i>2013</i>		<i>2012</i>	
	<i>Actual</i>	<i>Benchmark</i>	<i>Actual</i>	<i>Benchmark</i>	<i>Actual</i>	<i>Benchmark</i>	<i>Actual</i>	<i>Benchmark</i>
Operational cash	0.13	0.13	0.11	0.11	0.07	0.07	0.12	0.12
Global strategic portfolio	1.75	1.12	1.80	1.44	2.13	1.94	3.41	2.94
Global government bonds	0.05	0.43	0.77	0.42	0.34	0.16	1.63	1.51
Global credit portfolio	1.17	1.25	6.13	5.37	(0.04)	(0.32)	4.31	3.46
Global inflation-indexed bonds	(0.85)	(0.51)	2.35	2.05	(4.23)	(3.99)	4.73	6.13
Emerging market debt bonds	(1.17)	(0.86)	9.44	9.10	(7.49)	(6.54)	6.01	4.83
Gross rate of return excluding ALP	0.12	0.30						
Asset liability portfolio [*]	(0.78)	0.31						
Gross rate of return including ALP	0.13	0.35	2.74	2.24	(0.95)	(0.83)	3.28	3.16
Net rate of return including all fees	(0.06)	0.16	2.58	2.08	(1.11)	(0.99)	3.11	2.99

^{*} The ALP was funded on 19 February 2015 and performances are reported from this date. The ALP benchmark represents the cost of funding and does not reflect the investment universe allowed by the guidelines.

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

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 (including ALP)	2.72	1.95	1.91

V. Risk measurements

13. 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. Other risk indicators are reported in subsections A, D, E and F.

A. Market risk: Duration

14. Duration is a measure of the sensitivity of the market price of a fixed-income investment to a change in interest rates. IFAD assesses the optimal duration for each asset class in line with risk budget levels and the benchmark duration limits set in IFAD's investment guidelines.

Table 6
Investment portfolio effective duration and benchmark as at 31 December 2015 and 30 June 2016
 (In number of years)

	<i>31 December 2015</i>		<i>30 June 2016</i>	
	<i>Portfolio</i>	<i>Benchmark</i>	<i>Portfolio</i>	<i>Benchmark</i>
Asset liability	2.75	n.a.	1.04	n.a.
Global liquidity	-	-	0.25	n.a.
Global government	0.83	0.95	0.97	0.92
Global credit	4.19	4.60	4.52	4.75
Global inflation-indexed	6.25	5.31	6.14	5.42
Emerging market debt	6.62	6.48	6.97	6.87
Total portfolio (including held-to-maturity bonds and cash portfolios)	3.49	2.85	3.39	3.30

Note: The total portfolio duration is lowered by the global strategic portfolio which is reported at amortized cost and not subject to fluctuations in market prices and by operational cash. The ALP and GLP are managed internally and have a zero duration benchmark.

15. The overall portfolio duration was 3.39 years as at 30 June 2016 (3.49 years as at 31 December 2015) which is an overall conservative positioning.

B. Market risk: Conditional value-at-risk

16. The one-year CVaR at 95 per cent is a measure of the potential average expected loss of a portfolio under extreme conditions. It gives an indication of how much value a portfolio could lose 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 concurrent adverse market condition scenarios.
17. The IFAD portfolio risk budget level maximum is defined in the IPS as a CVaR of 6.0 per cent. The CVaR for the current IFAD portfolio is 2.98 per cent which means that the average loss of the overall portfolio under extreme market conditions could be \$45.2 million.

Table 7

CVaR of current asset classes as at 31 December 2015 and 30 June 2016

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

IFAD portfolios	Actual investment portfolio one-year CVaR		One-year CVaR IPS budget level
	31 December 2015	30 June 2016	
Asset liability	6.68	1.64	8.00
Global liquidity	-	5.35	n.a.
Global government	0.75	0.70	2.00
Global credit	4.93	5.23	15.00
Global inflation-indexed	7.15	6.59	9.00
Emerging market debt	7.89	8.33	27.00
Total portfolio (including held-to-maturity bonds and cash portfolios)	3.34	2.98	6.00

Note: The GLP CVaR IPS budget level is to be defined and prescribed in the updated version of the IPS that will be submitted to the December 2016 session of the Executive Board.

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.

Table 8

IFAD's investment portfolio ex ante tracking error as at 31 December 2015 and 30 June 2016

(Percentages)

IFAD portfolios	Actual investment portfolio		IPS budget level
	31 December 2015	30 June 2016	
Global government	0.38	0.29	1.50
Global credit	0.73	0.52	3.00
Global inflation-indexed	0.66	0.64	2.50
Emerging market debt	0.70	0.65	4.00

Note: The ALP does not have a benchmark as performance is tracked against the cost of funding. The portfolio tracking error is therefore not defined for this portfolio as it would not be representative of the actual portfolio universe allowed by the guidelines. Similarly the GLP has a benchmark of zero with no investment universe and consequently the portfolio tracking error is not reported.

20. The current levels of ex ante tracking errors of individual portfolios are below the prescribed budget levels indicating a close resemblance between the portfolio strategy and the benchmark indices.

D. Credit risk: Credit rating analysis

21. IFAD's IPS establishes a policy credit rating floor. Credit risk is managed through the monitoring of securities in accordance with investment guidelines, which may foresee stricter credit quality requirements than those contained in the IPS.
22. The majority of the IFAD portfolio holdings (57.5 per cent) has a credit quality of AA and AAA, 78 per cent is rated A and better.

Table 9

Investment portfolio composition by credit ratings^a as at 30 June 2016

(Thousands of United States dollars equivalent)

	<i>Operational cash</i>	<i>Global strategic</i>	<i>Global liquidity</i>	<i>Global government</i>	<i>Global credit</i>	<i>Global inflation-indexed</i>	<i>Emerging market debt</i>	<i>Asset liability portfolio</i>	Total amount	<i>Percentage</i>
AAA	-	70 547	23 941	209 417	37 940	171 302	-	-	513 147	33.8
AA+/-	-	80 168	-	92 501	52 422	41 074	52 598	40 761	359 523	23.7
A+/-	-	46 964	-	-	144 562	-	51 093	68 716	311 335	20.5
BBB+/-	-	500	-	3 928	26 059	-	134 409	39 650	204 546	13.5
Cash ^b	71 485	1 002	-	7 648	5 293	5 320	642	56 119	147 508	9.7
Pending sales and purchases ^c		-	(10 004)	(15)	(7 710)	-	-	-	(17 729)	(1.2)
Total	71 485	199 181	13 937	313 478	258 565	217 695	238 742	205 245	1 518 329	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 rating agencies Standard and Poor's (S&P), Moody's or Fitch.

^b Consists of cash equivalents, cash with central banks and approved commercial 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

23. 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.
24. At 30 June 2016, the net assets subject to SDR alignment amounted to US\$1,612.8 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^b</i>	<i>Euro group^c</i>	<i>Yen</i>	<i>Pound sterling</i>	<i>Total</i>
Cash and investments ^a	745 881	361 665	64 938	140 169	1 312 653
Promissory notes	129 569	35 455	43 221	-	208 245
Contribution receivables from Member States	142 919	131 848	28 770	76 301	379 838
Less: commitments denominated in US dollars	(193 557)	(3 043)	-	-	(196 600)
Non SDR loans (committed)	-	(91 398)	-	-	(91 398)
Net asset amount	824 812	434 527	136 930	216 470	1 612 738
Net asset amount (percentage)	51.1	26.9	8.5	13.4	99.9
SDR weights (percentage)	47.3	33.7	8.4	10.6	100.0
Difference (percentage)	3.8	(6.8)	0.1	2.8	(0.1)

^a The difference in the cash and investments balance compared with other tables derives from the exclusion of assets in non-convertible currencies (US\$415,000 equivalent) and the asset liability portfolio (US\$205.2 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.

^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

25. 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.
26. IFAD's latest financial model assumptions, incorporating 2015 resources available for commitment under the sustainable cash flow approach, calculate an MLR of US\$584.7 million (60 per cent of gross annual outflows),³ which is comfortably cleared by IFAD's investment portfolio balance of US\$1,518.3 million (see table 1).

² Liquidity policy: EB 2006/89/R.40.

³ Resources available for commitment: EB 2015/116/R.13.

Report on IFAD's investment portfolio for the first quarter of 2016

I. Executive summary

1. During the first quarter of 2016, the value of the investment portfolio in United States dollar terms increased by US\$4.7 million, from US\$1,513.7 million at 31 December 2015 to US\$1,518.4 million at 31 March 2016. The main factors for this increase were positive foreign exchange movements and investment income although offset by negative net outflows⁴ (see section II).
2. During the period, IFAD's investment portfolio generated US\$24.3 million of net investment income, of which US\$1.9 million was generated by the asset liability portfolio (ALP).
3. The total investment portfolio net rate of return for the period was 1.59 per cent, with the ALP contributing 1.22 per cent towards the total net rate of return (see section IV). The rates of return published are generated using a geometric average that reflects the time weighting of income as prescribed by the CFA Institute's GIPS.⁵

II. Asset allocation

4. During the first quarter of 2016, the value of the investment portfolio in United States dollar terms increased by US\$4.7 million. This was the result of positive foreign exchange movements including translation towards IFAD's reporting currency (the United States dollar) of US\$27.9 million and net investment income of US\$24.3 million that was partially offset by net outflows of US\$47.5 million.
5. During the period, an amount of US\$86.9 million was transferred from both the global inflation-indexed portfolio (US\$60.0 million) and the global strategic portfolio (US\$26.9 million) into the operational cash portfolio to cover disbursement requirements.
6. In line with IFAD's Investment Policy Statement⁶ (IPS) approved at the 116th Session in December 2015, the policy asset allocation reported in table 1 separates the ALP whilst the prescribed IPS exposure to global developed market equities that has not been implemented has been reallocated back into the global government and global inflation-indexed portfolios.

⁴ Net flows consist of outflows for disbursements for loans, grants and administrative expenses and inflows from loan reflows and encashment of Member States' contributions.

⁵ Investment portfolio rates of return are independently calculated by IFAD's Global Custodian in accordance with the CFA Institute - Global Investment Performance Standards (GIPS) www.gipsstandards.org.

⁶ EB 2015/116/R.23.

Table 1
Movements affecting the asset allocation within the portfolio during the first quarter of 2016
(Thousands of United States dollars equivalent)

	<i>Operational cash^a</i>	<i>Global strategic portfolio</i>	<i>Global government bonds</i>	<i>Global credit bonds</i>	<i>Global inflation-indexed bonds</i>	<i>Emerging market debt bonds</i>	Sub-total excluding ALP	<i>Asset liability portfolio (ALP)^d</i>	Total including ALP
Opening balance (31 December 2015)	55 999	212 576	364 399	246 872	263 222	218 758	1 361 826	151 839	1 513 665
Net investment income ^b	12	828	572	4 641	6 248	10 140	22 441	1 935	24 376
Transfers due to allocation	86 911	(26 911)	-	-	(60 000)	-	-	-	-
Transfers due to expense allocation	(787)	38	202	164	155	200	(28)	28	-
Net flows ^c	(47 511)	(1)	-	-	-	(1)	(47 513)	-	(47 513)
Movements on exchange	2 202	(1 151)	8 457	4 239	5 471	1 131	20 349	7 524	27 872
Closing balance (31 March 2016)	96 826	185 380	373 630	255 916	215 096	230 229	1 357 075	161 325	1 518 401
Actual asset allocation (percentage)	7.1	13.7	27.5	18.9	15.8	17.0	100.0		
IPS policy asset allocation (percentage)	4.0	18.0	31.1	20.0	12.9	14.0	100.0		
Difference in allocation (percentage)	3.1	(4.3)	(3.6)	(1.1)	2.9	3.0	-		

^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.

^d The asset liability portfolio (ALP) which is denominated in Euro (and reported in United States dollars) is not part of the prescribed IPS policy asset allocation. Therefore, as of this report, it is reported separately.

III. Investment income

7. Total net investment income for the first quarter of 2016 amounted to US\$24.3 million, inclusive of all investment-related fees and income of US1.9 million generated by the ALP.

Table 2
Breakdown of investment income by asset class during the first quarter of 2016
(Thousands of United States dollars equivalent)

	<i>Operational cash</i>	<i>Global strategic portfolio</i>	<i>Global government bonds</i>	<i>Global credit bonds</i>	<i>Global inflation-indexed bonds</i>	<i>Emerging market debt bonds</i>	Sub-total excluding ALP	<i>Asset liability portfolio (ALP)^b</i>	Total including ALP
Interest from investments and bank accounts	34	1 004	1 261	1 892	487	2 585	7 263	177	7 440
Realized market gains/(losses)	-	-	(3 741)	(801)	(1 672)	(900)	(7 114)	184	(6 930)
Unrealized market gains	-	-	3 254	3 714	7 588	8 655	23 211	1 602	24 813
Amortization ^a	-	(138)	-	-	-	-	(138)	-	(138)
Investment income before fees	34	866	774	4 805	6 403	10 340	23 222	1 963	25 185
Investment manager fees	-	-	(110)	(113)	(109)	(155)	(487)	-	(487)
Custody fees and bank charges	(22)	(10)	(36)	(13)	(11)	(11)	(103)	(11)	(114)
Financial advisory and investment related fees	-	(28)	(56)	(38)	(35)	(34)	(191)	(17)	(208)
Investment income after fees	12	828	572	4 641	6 248	10 140	22 441	1 935	24 376

^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.

^b The asset liability portfolio (ALP) which is denominated in Euro (and reported in United States dollars) is not part of the prescribed IPS policy asset allocation. Therefore, it is reported separately as of this report.

IV. Rate of return

8. 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 V, E).
9. In addition, the rates of return are independently calculated by IFAD's Global Custodian using the geometric average methodology that reflects the time weighting of income. This methodology is prescribed by the CFA Institute within the GIPS.
10. Excluding ALP, the portfolio generated a performance, net of all investment-related expenses, of 1.64 per cent during the first quarter of 2016, versus a benchmark of 1.54 per cent for the same period. The ALP contributed to the total net rate of return by generating a performance of 1.22 per cent for the same period. The net return of the portfolio including ALP was 1.59.
11. The rates of return presented in table 3 are reported gross of all investment-related fees unless otherwise specified.

Table 3

First quarter 2016 (gross) performances versus benchmarks together with quarterly (gross) performances for 2015 for comparative purposes
(Percentages in local currency terms)

	Quarterly performances for 2015				First quarter 2016		
	First quarter	Second quarter	Third quarter	Fourth quarter	Actual	Benchmark	Difference
Operational cash	0.04	0.04	0.03	0.02	0.06	0.06	0.00
Global strategic portfolio	0.41	0.42	0.44	0.46	0.44	0.29	0.15
Global government bonds	0.21	(0.39)	0.11	0.12	0.18	0.32	(0.14)
Global credit bonds	1.44	(1.25)	0.34	0.65	1.80	2.34	(0.54)
Global inflation-indexed bonds	1.38	(0.53)	(0.79)	(0.90)	2.73	2.69	0.04
Emerging market debt bonds	2.35	(1.93)	(2.15)	0.62	4.68	4.52	0.16
Gross rate of return excluding ALP	0.96	(0.63)	(0.34)	0.14	1.70	1.59	0.11
Net rate of return excluding ALP	0.91	(0.76)	(0.30)	0.09	1.64	1.54	0.10
Asset liability portfolio	0.01	(1.91)	1.02	0.10	1.22	0.06	1.16
Gross rate of return including ALP	0.96	(0.72)	(0.25)	0.13	1.65	n.a.	n.a.
Net rate of return including ALP	0.91	(0.76)	(0.30)	0.09	1.59	n.a.	n.a.

Note: The asset liability portfolio was funded on 19 February 2015 and performances are reported from this date. The asset liability portfolio benchmark represents the cost of funding and does not reflect the investment universe allowed by the guidelines.

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 2012 to 2015 for comparative purposes
 (Percentages in local currency terms)

	2015		2014		2013		2012	
	<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	0.13	0.13	0.11	0.11	0.07	0.07	0.12	0.12
Global strategic portfolio	1.75	1.12	1.80	1.44	2.13	1.94	3.41	2.94
Global government bonds	0.05	0.43	0.77	0.42	0.34	0.16	1.63	1.51
Global credit portfolio	1.17	1.25	6.13	5.37	(0.04)	(0.32)	4.31	3.46
Global inflation-indexed bonds	(0.85)	(0.51)	2.35	2.05	(4.23)	(3.99)	4.73	6.13
Emerging market debt bonds	(1.17)	(0.86)	9.44	9.10	(7.49)	(6.54)	6.01	4.83
Gross rate of return excluding ALP	0.12	0.30						
Asset liability portfolio	(0.78)	0.31						
Gross rate of return including ALP	0.13	0.35	2.74	2.24	(0.95)	(0.83)	3.28	3.16
Net rate of return including all fees	(0.06)	0.16	2.58	2.08	(1.11)	(0.99)	3.11	2.99

Note: The asset liability portfolio was funded on 19 February 2015 and performances are reported from this date. The asset liability portfolio benchmark represents the cost of funding and does not reflect the investment universe allowed by the investment guidelines.

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 (including ALP)	0.62	0.93	1.90
Prescribed benchmark performance	1.02	0.85	1.84
Excess return	(0.40)	0.08	0.06

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

V. 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 market price of a fixed-income investment to a change in interest rates. IFAD assesses the optimal duration for each asset class in line with risk budget levels and the benchmark duration limits set in IFAD's investment guidelines.

Table 6
IFAD's investment portfolio and benchmark effective duration as at 31 December 2015 and 31 March 2016

(Duration in number of years)

	31 December 2015		31 March 2016	
	Portfolio	Benchmark	Portfolio	Benchmark
Asset liability portfolio	2.75	n.a.	1.27	n.a.
Global government bonds	0.83	0.95	0.96	0.96
Global credit portfolio	4.19	4.60	4.46	4.65
Global inflation-indexed bonds	6.25	5.31	6.16	5.33
Emerging market debt bonds	6.62	6.48	6.77	6.73
Total portfolio (including held-to-maturity bonds and cash portfolios)	3.49	2.85	3.28	3.19

Note: The total portfolio duration is lowered by the global strategic portfolio which is reported at amortized cost and not subject to fluctuations in market prices and by the operational cash. The asset liability portfolio is managed internally and has a zero duration benchmark.

16. The overall portfolio duration was 3.28 years (3.49 years as at 31 December 2015) which is an overall 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 and gives an indication of how much value a portfolio could lose 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 concurrent market condition scenarios.
18. The IFAD portfolio risk budget level maximum is defined in the IPS as a CVaR of 6.0 per cent. The CVaR for the current IFAD portfolio is 2.97 per cent which means that the average loss of the overall portfolio under extreme market conditions could be \$45.1 million.

Table 7

CVaR of current asset classes as at 31 December 2015 and 31 March 2016

(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 2015	31 March 2016	
Asset liability portfolio (excluding cash)	6.68	1.94	8.00
Global government bonds	0.75	0.72	4.00
Global credit portfolio	4.93	5.48	15.00
Global inflation-indexed bonds	7.15	6.70	9.00
Emerging market debt bonds	7.89	7.77	27.00
Total portfolio (including held-to-maturity bonds and cash portfolios)	3.34	2.97	6.00

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

C. Market risk: Ex ante tracking error

20. The ex-ante tracking error gives an indication of how different an active strategy is from its benchmark.

Table 8
IFAD's investment portfolio ex ante tracking error as at 31 December 2015 and March 2016
(Percentages)

	<i>Actual investment portfolio</i>		<i>IPS budget level</i>
	<i>31 December 2015</i>	<i>31 March 2016</i>	
Global government bonds	0.38	0.34	1.50
Global credit portfolio	0.73	0.64	3.00
Global inflation-indexed bonds	0.66	0.62	2.50
Emerging market debt bonds	0.70	0.70	4.00

Note: The asset liability portfolio does not have a benchmark as performance is tracked against the cost of funding. The portfolio tracking error is therefore not defined for this portfolio as it would not be representative of the actual portfolio universe allowed by the guidelines.

21. The current levels of ex ante tracking errors of individual portfolios are below the prescribed budget levels indicating a close resemblance between the portfolio strategy and the benchmark indices.

D. Credit risk: Credit rating analysis

22. IFAD's IPS establishes a policy credit rating floor. Credit risk is managed through the monitoring of securities in accordance with investment guidelines, which may foresee stricter credit quality requirements than those contained in the IPS.

Table 9
Investment portfolio composition by credit ratings^a as at 31 March 2016
(Thousands of United States dollars equivalent)

	<i>Operational cash</i>	<i>Global strategic portfolio</i>	<i>Global government bonds</i>	<i>Global credit portfolio</i>	<i>Global inflation-indexed bonds</i>	<i>Emerging market debt</i>	Sub-total excluding ALP	<i>Asset liability portfolio (ALP)^d</i>	Total including ALP	<i>Percentage</i>
AAA	-	74 413	264 959	48 489	163 608	-	551 469	-	551 469	36.4
AA+/-	-	61 381	96 715	35 706	41 868	45 465	281 135	41 454	322 589	21.2
A+/-	-	47 071	-	155 944	-	49 887	252 902	54 895	307 797	20.3
BBB+/-	-	503	-	25 113	-	130 021	155 637	31 202	186 839	12.3
Cash ^b	96 826	2 012	13 544	7 486	8 815	4 905	133 588	33 774	167 362	11.0
Pending sales and purchases ^c	-	-	(1 588)	(16 822)	805	(49)	(17 654)	-	(17 654)	(1.2)
Total	96 826	185 380	373 630	255 916	215 096	230 230	1 357 075	161 325	1 518 401	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 rating agencies Standard and Poor's (S&P), Moody's or Fitch rating agencies.

^b Consists of cash equivalents, cash with central banks and approved commercial 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.

^d The asset liability portfolio (ALP) which is denominated in Euro (and reported in United States dollars) is not part of the prescribed IPS policy asset allocation. Therefore, it is reported separately as of this report.

E. Currency risk: Currency composition analysis

23. 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.
24. At 31 March 2016, the net asset value amounted to US\$1,735.2 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^b</i>	<i>Euro group^c</i>	<i>Yen</i>	<i>Pound sterling</i>	<i>Total</i>
Cash and investments ^a	768 728	367 170	67 498	153 241	1 356 637
Promissory notes	132 925	51 539	39 451	-	223 914
Contribution receivables from Member States	171 991	148 760	26 261	82 037	429 048
Less: commitments denominated in US dollars	(203 718)	(2 813)	-	-	(206 531)
Non SDR loans (committed)	-	(67 906)	-	-	(67 906)
Net asset amount	869 926	496 749	133 209	235 278	1 735 162
Net asset amount (percentage)	50.1	28.6	7.7	13.6	100.0
SDR weights (percentage)	46.9	34.2	7.6	11.3	100.0
Difference (percentage)	3.2	(5.6)	0.1	2.3	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 (US\$415,000 equivalent) and the asset liability portfolio (US\$161.3 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.

^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

25. IFAD's liquidity risk is addressed through the minimum liquidity requirement (MLR). IFAD's liquidity policy⁷ 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.
26. IFAD's latest financial model assumptions, incorporating 2015 resources available for commitment under the sustainable cash flow approach, calculate an MLR of US\$680.0 million (60 per cent of gross annual outflows),⁸ which is comfortably cleared by IFAD's investment portfolio balance of US\$1,518.4 million (see table 1).

⁷ EB 2006/89/R.40.

⁸ EB 2015/116/R.13.