

Document: EB 2017/121/R.36
Agenda: 16
Date: 23 August 2017
Distribution: Public
Original: English

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Investing in rural people

Report on IFAD's investment portfolio for the first and second quarters of 2017

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Executive Board — 121st Session
Rome, 13-14 September 2017

For: Information

Report on IFAD's investment portfolio for the second quarter of 2017¹

I. Executive summary

1. During the second quarter of 2017, IFAD's investment portfolio generated a net rate of return of 0.55 per cent with net investment income of US\$8.0 million.² Year-to-date, IFAD's investment portfolio has generated a net rate of return of 1.23 per cent.
2. The value of the investment portfolio in United States dollar terms increased by US\$117.4 million from US\$1,399.0 million at 31 March 2017 to US\$1,516.4 million at 30 June 2017. The main factors underlying this increase were net inflows of US\$74.4 million, net investment income of US\$8.0 million and positive foreign exchange movements of US\$34.5 million.

II. Market conditions

3. Political risks in Europe receded and monetary policy in the United States tightened, which led to a sell-off in safe-haven assets. United States and German government bond yield curves shifted higher, with a significant steepening of the latter. This weighed on the returns of longer-duration portfolios such as the global inflation linked portfolio.
4. Increased investor appetite for risk insulated the returns of the emerging market debt and global credit portfolios through tighter credit spreads. However, the rise in bond yields also weighed on the returns of these portfolios.
5. In order to shield the investment portfolio from losses stemming from a further rise in the relevant yield curves, divestments were made from the emerging market debt, global credit and global inflation-indexed portfolios (table 1). These divestments were particularly timely, as they allowed IFAD to realize significant gains on these portfolios (table 2), while avoiding impending losses from the rise in yields later in the quarter.

¹ The report on IFAD's investment portfolio for the first quarter of 2017 is included as an annex.

² 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 (unrounded) underlying data.

III. Portfolio allocation

6. During the second quarter of 2017, the value of the investment portfolio in United States dollar terms increased by US\$117.4 million.

Table 1

Movements affecting IFAD's investment portfolio in the second quarter of 2017

(Thousands of United States dollars equivalent)

	Opera- tional cash ^a	Global strategic portfolio	Global liquidity portfolio	Chinese renminbi portfolio	Global govern- ment bonds	Global credit bonds	Global inflation- indexed bonds	Emerging market debt bonds	Asset liability portfolio	Total
Opening balance (31 March 2017)	24 523	192 618	157 927	69 786	147 968	255 915	159 950	141 224	249 081	1 398 992
Net investment income	3	897	636	832	(171)	2 942	239	2 121	460	7 960
Transfers due to expense allocation	1	31	25	9	66	159	95	103	38	526
Net flows ^b	43 527	3 462	92 721	10 299	(10)	(75 013)	(64 010)	(40 011)	103 480	74 445
Foreign exchange movements	252	2 269	690	1 133	4 717	4 781	3 935	842	15 893	34 512
Closing balance (30 June 2017)	68 307	199 277	251 999	82 058	152 569	188 785	100 210	104 278	368 953	1 516 436

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

^b Net flows consist of outflows in respect of disbursements of loans, grants and administrative expenses and inflows from loan reflows and encashment of Member State contributions.

IV. Investment income

7. Gross investment income for the second quarter of 2017 amounted to US\$8.6 million, with net investment income inclusive of all investment-related fees totalling US\$8.0 million. Table 2 presents a summary of the second quarter 2017 investment income broken down by portfolio.

Table 2

Breakdown of IFAD's investment income by portfolio for the second quarter of 2017

(Thousands of United States dollars equivalent)

	Opera- tional cash	Global strategic portfolio	Global liquidity portfolio	Chinese renminbi portfolio	Global govern- ment bonds	Global credit bonds	Global inflation- indexed bonds	Emerging market debt bonds	Asset liability portfolio	Total
Interest and coupon income	66	950	619	841	440	1 791	362	1 229	309	6 606
Realized market gains/(losses)	15	-	25	-	(427)	794	1 180	232	139	1 959
Unrealized market gains/(losses)	-	-	17	-	(118)	516	(1 208)	762	51	20
Amortization [*]	-	(22)	-	-	-	-	-	-	-	(22)
Investment income before fees	81	928	661	841	(105)	3 101	334	2 223	499	8 563
Investment manager fees	-	-	-	-	(39)	(118)	(68)	(81)	-	(306)
Custody fees	(1)	(10)	(10)	(1)	(10)	(13)	(10)	(11)	(12)	(78)
Bank charges	(76)	-	-	-	-	-	-	-	-	(77)
Advisory and other investment-related fees	-	(21)	(15)	(8)	(16)	(28)	(17)	(11)	(26)	(142)
Investment income after fees	3	897	636	832	(171)	2 942	239	2 121	460	7 960

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

V. Rate of return

8. The rate of return on IFAD's investment portfolio is calculated in local currency terms without reflecting the impact of foreign exchange movements, which is neutralized through the currency alignment of IFAD's assets and liabilities with special drawing right (SDR) currency ratios (see section VII.E).
9. Rates of return are independently calculated by IFAD's Global Custodian using the geometric mean methodology, which reflects time-weighting of flows.
10. Excluding the asset liability portfolio (ALP), IFAD's investment portfolio generated a net return of 0.63 per cent for the second quarter of 2017, outperforming the benchmark of 0.39 per cent. The ALP generated a gross return of 0.19 per cent versus a target rate of return of 0.05 per cent for the same period. The net rate of return for the entire investment portfolio, including the ALP, was 0.55 per cent.

Table 3

Quarterly performances for 2016, year-to-date 2017 and second-quarter benchmarks

(Percentages in local currency terms)

	Quarterly performances in 2016				Quarterly performances in 2017			
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Second quarter benchmark return	Difference
Operational cash	0.06	0.09	0.47	0.06	0.14	0.17	0.17	-
Global strategic portfolio	0.44	0.45	0.46	0.46	0.46	0.47	0.19	0.28
Global liquidity portfolio ^a	-	0.02	0.38	0.21	0.31	0.35	0.00	0.35
Chinese renminbi portfolio ^a	-	-	-	-	0.93	1.10	0.00	1.10
Global government bonds	0.18	0.20	0.18	0.09	(0.04)	(0.04)	0.18	(0.22)
Global credit bonds	1.80	1.70	1.26	(1.54)	0.95	1.10	0.99	0.10
Global inflation-indexed bonds	2.73	1.99	1.15	(1.48)	0.65	(0.21)	(0.32)	0.11
Emerging market debt bonds	4.68	4.00	2.50	(4.27)	3.24	1.84	1.54	0.29
Gross rate of return excluding ALP	1.70	1.48	0.97	(1.02)	0.83	0.68	0.44	0.24
Net rate of return excluding ALP	1.64	1.43	0.94	(1.07)	0.78	0.63	0.39	0.24
Asset liability portfolio (ALP) ^b	1.22	0.53	0.62	(0.12)	0.19	0.19	0.05	0.14
Gross rate of return including ALP	1.65	1.38	0.93	(0.89)	0.72	0.59	n.a.	n.a.
Net rate of return including ALP	1.59	1.33	0.89	(0.93)	0.67	0.55	n.a.	n.a.

^a The global liquidity and Chinese renminbi portfolios were progressively funded from May and October 2016 respectively. Benchmarks for both portfolios are zero per cent.

^b The ALP benchmark is a target rate of return representing the cost of funding and does not reflect the investment universe allowed by the guidelines.

Table 4

IFAD portfolio performance rolling average as at 30 June 2017

(Percentages in local currency terms)

	One year	Three years	Five years
Portfolio performance	1.18	1.44	1.45

11. For comparative purposes, table 5 presents annual performances during the previous four years.

Table 5
Historical annual performances versus benchmarks
 (Percentages in local currency terms)

	2016		2015		2014		2013	
	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark
Operational cash	0.30	0.30	0.13	0.13	0.11	0.11	0.07	0.07
Global strategic portfolio	1.83	0.95	1.75	1.12	1.80	1.44	2.13	1.94
Asset liability portfolio	0.62	0.00	(0.78)	0.31	-	-	-	-
Chinese renminbi portfolio	0.48	0.00	-	-	-	-	-	-
Global government bonds	0.64	1.03	0.05	0.43	0.77	0.42	0.34	0.16
Global credit bonds	3.23	3.52	1.17	1.25	6.13	5.37	(0.04)	(0.32)
Global inflation-indexed bonds	4.41	4.37	(0.85)	(0.51)	2.35	2.05	(4.23)	(3.99)
Emerging market debt bonds	6.83	6.40	(1.17)	(0.86)	9.44	9.10	(7.49)	(6.54)
Gross rate of return (excluding fees)	3.09	n.a.	0.13	0.35	2.74	2.24	(0.95)	(0.83)
Net rate of return (including all fees)	2.91	n.a.	(0.06)	0.16	2.58	2.08	(1.11)	(0.99)

VI. Composition of the portfolio by instrument

12. Table 6 shows the composition of the investment portfolio by instrument as at 30 June 2017, compared with IFAD's Investment Policy Statement (IPS) asset allocation.

Table 6
Investment portfolio by instrument as at 30 June 2017
 (Thousands of United States dollars equivalent)

	30 June 2017		IFAD's (%) IPS asset allocation ^b	Difference (%)
	Actual portfolio allocation (US\$)	Actual portfolio allocation (%)		
Cash ^a	215 270	14.2	-	14.2
Time deposits	81 032	5.3	-	5.3
Global government bonds/agencies	583 343	38.5	50.0	(11.5)
Corporate credit bonds	455 448	30.0	25.0	5.0
Global inflation-indexed bonds	96 341	6.4	10.0	(3.6)
Emerging market debt bonds	101 555	6.7	15.0	(8.3)
Pending trades	(16 554)	(1.1)	-	(1.1)
Total	1 516 436	100.0	100.0	100.0

^a Includes operational cash (US\$68.3 million) and other cash held in investment portfolios pending reinvestment.

^b See EB 2016/119/R.36, IFAD's Investment Policy Statement, annex III.

VII. Risk measurements

13. The IPS risk-budgeting measures used are conditional value at risk (CVaR) and the ex ante tracking error, which are reported in subsections B and C. 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.

Table 7

Effective durations of IFAD's investment portfolio and benchmarks

(Duration in number of years)

	30 June 2017		31 December 2016	
	Portfolio	Benchmark	Portfolio	Benchmark
Asset liability portfolio	1.49	0.00	1.57	0.00
Global liquidity portfolio	0.30	0.00	0.11	0.00
Chinese renminbi portfolio	0.04	0.00	0.07	0.00
Global government bonds	0.20	1.09	0.57	1.00
Global credit bonds	4.42	4.89	4.50	4.82
Global inflation-indexed bonds	6.00	5.37	5.87	5.33
Emerging market debt bonds	6.94	6.78	5.97	6.57
Total portfolio (including global strategic portfolio and operational cash)	2.12	2.17	2.83	2.97

Note: The total portfolio duration is lowered by the global strategic portfolio, reported at amortized cost, and the operational cash portfolio, as neither is subject to market fluctuations. The asset liability, global liquidity and Chinese renminbi portfolios are managed internally and have a duration benchmark of zero.

15. The overall portfolio duration was 2.12 years (2.83 years in 2016). The decline was due to divestments from the global inflation-indexed and global credit portfolios.

B. Market risk: conditional value at risk

16. The one-year CVaR at 95 per cent is a measure of the potential average probable 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.
17. The IFAD portfolio risk budget level maximum is defined in the IPS as a CVaR of 6.0 per cent. CVaR for the overall IFAD portfolio was 1.93 per cent, which is well below the approved risk budget. The current CVaR risk level of 1.93 per cent means that the average loss of the overall portfolio under extreme market conditions could be US\$29.27 million.
18. Similar to duration, the decline in CVaR was due to divestments from the global inflation-indexed and global credit portfolios.

Table 8

CVaRs of IFAD's asset classes

(95-per-cent confidence level; percentages based on historical simulations over five-year history)

	Actual investment portfolio one-year CVaR		One-year CVaR IPS budget level
	30 June 2017	31 December 2016	
Asset liability portfolio	1.46	1.48	8.00
Global liquidity portfolio	1.95	2.25	2.00
Chinese renminbi portfolio	1.19	1.68	2.00
Global government bonds	0.86	0.34	2.00
Global credit bonds	4.61	4.86	7.00
Global inflation-indexed bonds	6.19	6.27	9.00
Emerging market debt bonds	9.15	9.58	15.00
Total portfolio (including global strategic portfolio and cash)	1.93	2.71	6.00

Note: Total portfolio CVaR is lowered by the global strategic portfolio, reported at amortized cost, and the operational cash portfolio, as neither is subject to market fluctuations.

C. Market risk: ex ante tracking error

19. The ex ante tracking error is a measure of how closely a portfolio is expected to track its benchmark. A higher tracking error indicates larger expected deviations.

Table 9
IFAD's investment portfolio ex ante tracking error
(Percentages)

	<i>Actual investment portfolio</i>		<i>IPS budget level</i>
	<i>30 June 2017</i>	<i>31 December 2016</i>	
Global government bonds	0.53	0.29	1.50
Global credit bonds	0.53	0.50	3.00
Global inflation-indexed bonds	0.54	0.61	2.50
Emerging market debt bonds	0.57	0.64	4.00

Note: Although IFAD's IPS prescribes a tracking error risk-tolerance level, the asset liability portfolio does not have a benchmark universe based on investment guidelines; instead, performance is tracked against the cost of funding. Similarly, the global liquidity and Chinese renminbi portfolios have a zero-per-cent benchmark. The portfolio tracking error is therefore not reported, because the comparative benchmark is not representative of the actual portfolio universe allowed by the investment guidelines.

20. Current levels of ex ante tracking errors in individual portfolios are all 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, with credit risk managed by monitoring securities in accordance with investment guidelines, which may foresee stricter credit quality requirements than those contained in the IPS.

Table 10
Investment portfolio composition by credit ratings^a at 30 June 2017 and 31 December 2016 (total)
(Thousands of United States dollars equivalent)

	<i>Opera- tional cash</i>	<i>Global strategic portfolio</i>	<i>Global liquidity portfolio</i>	<i>Chinese renminbi portfolio</i>	<i>Global govern- ment bonds</i>	<i>Global credit bonds</i>	<i>Global inflation- indexed bonds</i>	<i>Emerging market debt</i>	<i>Asset liability portfolio</i>	<i>Total US\$ 30 June 2017</i>	<i>Total % 30 June 2017</i>	<i>Total % 31 Dec. 2016</i>
AAA	-	66 017	194 073	-	102 137	13 110	78 292	-	-	453 629	29.9	31.9
AA+/-	-	68 299	57 727	-	42 193	24 412	18 049	17 374	34 399	262 453	17.3	25.7
A+/-	-	59 682	-	-	-	127 965	-	27 444	162 717	377 808	24.9	23.2
BBB+/-	-	501	-	-	-	18 294	-	56 737	67 265	142 797	9.4	10.7
Cash ^b	68 307	4 777	198	1 026	8 240	11 736	3 868	2 724	114 395	215 270	14.2	7.3
Time deposit	-	-	-	81 032	-	-	-	-	-	81 032	5.3	1.5
Pending trades ^c	-	-	-	-	-	(6 731)	-	-	(9 822)	(16 554)	(1.1)	(0.5)
Total	68 307	199 277	251 999	82 058	152 569	188 785	100 210	104 278	368 953	1 516 436	100.0	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.

^b Consists of cash and equivalents 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

22. 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 as its commitments, that is, in SDR.
23. Over the last several months, IFAD's net asset position subject to the SDR currency composition was adjusted to reflect the inclusion of the Chinese renminbi and newly approved non-SDR loans (see table 11).

24. Currency composition as at 30 June 2017:

Table 11

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

<i>Currency</i>	<i>Chinese renminbi</i>	<i>Euro group</i>	<i>Pound sterling</i>	<i>Japanese yen</i>	<i>United States dollar group</i>	<i>Total</i>
Cash and investments [*]	82 058	198 014	97 573	30 716	738 699	1 147 061
Contribution receivables from Member States	-	81 161	49 428	-	113 306	243 894
Less: Non-SDR denominated loans	-	(36 915)	-	-	(352 184)	(389 099)
Promissory notes	-	17 939	24 713	39 403	72 192	154 246
Less: commitments not denominated in SDR	-	(4 999)	-	-	(203 876)	(208 875)
Net asset amount	82 058	255 199	171 713	70 119	368 137	947 227
Net asset amount (percentage)	8.66	26.94	18.13	7.40	38.86	100.0
SDR weights (percentage)	10.78	31.72	8.02	7.64	41.84	100.0
Percentage difference	(2.12)	(4.78)	10.11	(0.24)	2.98	0.0

^{*} The difference in the cash and investments balance compared with other tables derives from the exclusion of assets in non-convertible currencies (US\$431,000 equivalent) and the ALP (US\$369.0 million equivalent). The latter is not subject to the SDR currency alignment as it is maintained in euros in line with its commitments.

F. Liquidity risk: minimum liquidity requirement

25. IFAD's latest financial model assumptions – incorporating 2016 resources available for commitment under the sustainable cash flow approach – calculate a minimum liquidity requirement of US\$582.5 million (60 per cent of gross annual outflows),³ which is comfortably cleared by IFAD's investment portfolio balance of US\$1,516.4 million (see table 1).

³ See EB 2016/119/R.19.

Report on IFAD's investment portfolio for the first quarter of 2017

I. Executive summary

1. During the first quarter of 2017, IFAD's investment portfolio generated a net rate of return of 0.67 per cent with net investment income of US\$9.4 million.⁴
2. The value of the investment portfolio in United States dollar terms increased by US\$70.6 million from US\$1,328.3 million at 31 December 2016 to US\$1,399.0 million at 31 March 2017. The main factors underlying this increase were net inflows of US\$52.4 million, net investment income of US\$9.4 million and positive foreign exchange movements of US\$8.2 million.

II. Market conditions

3. Fixed-income markets were relatively well supported, as political risks in Europe increased investor demand for safe-haven assets. Although tighter monetary policy in the United States partially offset this effect, most government bond yield curves ended the quarter lower and flatter. This caused higher returns on longer-duration portfolios such as global credit, global inflation-linked and emerging market debt.
4. Emerging market debt benefited from positive market sentiment, while stronger economic data and improved hard commodity prices further boosted demand for this asset class.
5. With various political risks on the horizon and the possibility of further Federal Reserve tightening, the market outlook for fixed-income markets remained highly uncertain. In order to shield the investment portfolio from these risks, the positioning of the portfolio continued to reflect a cautious stance.

III. Portfolio allocation

6. During the first quarter of 2017, the value of the investment portfolio in United States dollar terms increased by US\$70.6 million.

Table 1
Movements affecting IFAD's investment portfolio – first quarter 2017
 (Thousands of United States dollars equivalent)

	<i>Opera- tional cash^a</i>	<i>Global strategic portfolio</i>	<i>Global liquidity portfolio</i>	<i>Chinese renminbi portfolio</i>	<i>Global govern- ment bonds</i>	<i>Global credit bonds</i>	<i>Global inflation- indexed bonds</i>	<i>Emerging market bonds</i>	<i>Asset liability portfolio</i>	Total
Opening balance (31 December 2016)	32 587	186 110	53 278	20 558	243 048	252 004	157 105	136 564	247 092	1 328 346
Net investment income	48	810	286	449	(148)	2 312	945	4 317	419	9 437
Transfers due to expense allocation	2	45	32	11	78	172	103	120	57	620
Net flows ^b	(7 095)	4 994	104 178	48 420	(96 551)	(9)	(6)	(6)	(1 564)	52 360
Foreign exchange movements	(1 019)	658	153	348	1 541	1 435	1 804	230	3 077	8 228
Closing balance (31 March 2017)	24 523	192 618	157 927	69 786	147 968	255 915	159 950	141 224	249 081	1 398 992

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

^b Net flows consist of outflows in respect of disbursements of loans, grants and administrative expenses and inflows from loan reflows and encashment of Member State contributions.

⁴ 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 (unrounded) underlying data.

IV. Investment income

7. Gross investment income for the first quarter of 2017 amounted to US\$10.1 million, with net investment income inclusive of all investment-related fees totalling US\$9.4 million. Table 2 presents a summary of the first quarter 2017 investment income broken down by portfolio.

Table 2
Breakdown of IFAD's investment income by portfolio – first quarter 2017
 (Thousands of United States dollars equivalent)

	<i>Operational cash</i>	<i>Global strategic portfolio</i>	<i>Global liquidity portfolio</i>	<i>Chinese renminbi portfolio</i>	<i>Global government bonds</i>	<i>Global credit bonds</i>	<i>Global inflation-indexed bonds</i>	<i>Emerging market bonds</i>	<i>Asset liability portfolio</i>	Total
Interest and coupon income	70	923	275	460	463	1 764	409	1 494	275	6 134
Realized market gains/(losses)	3	-	22	-	(508)	89	268	(191)	322	6
Unrealized market gains/(losses)	-	-	21	-	(26)	630	371	3 134	(122)	4 009
Amortization*	-	(68)	-	-	-	-	-	-	-	(68)
Investment income before fees	74	855	318	460	(71)	2 484	1 048	4 437	476	10 081
Investment manager fees	-	-	-	-	(40)	(111)	(64)	(84)	-	(300)
Custody fees	(2)	(9)	(9)	(1)	(9)	(12)	(9)	(9)	(10)	(70)
Bank charges	(23)	-	-	-	-	-	-	-	-	(24)
Advisory and other investment-related fees	-	(36)	(23)	(11)	(28)	(49)	(30)	(27)	(47)	(250)
Investment income after fees	48	810	286	449	(148)	2 312	945	4 317	419	9 437

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

V. Rate of return

8. The rate of return on IFAD's investment portfolio is calculated in local currency terms without reflecting the impact of foreign exchange movements, which is neutralized through the currency alignment of IFAD's assets and liabilities with the special drawing right (SDR) currency ratios (see section VII.E.).
9. Rates of return are independently calculated by IFAD's Global Custodian using the geometric mean methodology, which reflects time-weighting of flows as prescribed by the Chartered Financial Analyst (CFA) Institute's Global Investment Performance Standards (GIPS).
10. Excluding the asset liability portfolio (ALP), IFAD's investment portfolio generated a net return of 0.78 per cent for the first quarter of 2017, outperforming the benchmark of 0.67 per cent. The ALP generated a gross yield of 0.19 per cent versus a target rate of return of 0.05 per cent for the same period. The net rate of return for the entire investment portfolio, including the ALP, was 0.67 per cent.

Table 3
Quarterly performances for 2016, first quarter 2017 and benchmarks
 (Percentages in local currency terms)

	Quarterly performances in 2016				First quarter performances in 2017		
	First quarter	Second quarter	Third quarter	Fourth quarter	Actual return	Benchmark return	Difference
Operational cash	0.06	0.09	0.47	0.06	0.14	0.14	-
Global strategic portfolio	0.44	0.45	0.46	0.46	0.46	0.21	0.25
Global liquidity portfolio ^a	-	0.02	0.38	0.21	0.31	0.00	0.31
Chinese renminbi portfolio ^a	-	-	-	-	0.93	0.00	0.93
Global government bonds	0.18	0.20	0.18	0.09	(0.04)	0.17	(0.21)
Global credit bonds	1.80	1.70	1.26	(1.54)	0.95	0.81	0.13
Global inflation-indexed bonds	2.73	1.99	1.15	(1.48)	0.65	0.58	0.07
Emerging market debt bonds	4.68	4.00	2.50	(4.27)	3.24	2.96	0.28
Gross rate of return excluding ALP	1.70	1.48	0.97	(1.02)	0.83	0.72	0.12
Net rate of return excluding ALP	1.64	1.43	0.94	(1.07)	0.78	0.67	0.12
Asset liability portfolio (ALP) ^b	1.22	0.53	0.62	(0.12)	0.19	0.05	0.13
Gross rate of return including ALP	1.65	1.38	0.93	(0.89)	0.72	n.a.	n.a.
Net rate of return including ALP	1.59	1.33	0.89	(0.93)	0.67	n.a.	n.a.

^a The global liquidity and Chinese renminbi portfolios were progressively funded from May and October 2016 respectively. Benchmarks for both portfolios are zero per cent.

^b The ALP benchmark is a target rate of return representing the cost of funding and does not reflect the investment universe allowed by the guidelines.

Table 4
IFAD portfolio performance rolling average as at 31 March 2017
 (Percentages in local currency terms)

	One year	Three years	Five years
Portfolio performance	1.97	1.69	1.50

11. For comparative purposes, table 5 presents annual performances during the previous four years.

Table 5
Historical annual performances versus benchmarks
 (Percentages in local currency terms)

	2016		2015		2014		2013	
	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark
Operational cash	0.30	0.30	0.13	0.13	0.11	0.11	0.07	0.07
Global strategic portfolio	1.83	0.95	1.75	1.12	1.80	1.44	2.13	1.94
Asset liability portfolio	0.62	0.00	(0.78)	0.31	-	-	-	-
Chinese renminbi portfolio	0.48	0.00	-	-	-	-	-	-
Global government bonds	0.64	1.03	0.05	0.43	0.77	0.42	0.34	0.16
Global credit bonds	3.23	3.52	1.17	1.25	6.13	5.37	(0.04)	(0.32)
Global inflation-indexed bonds	4.41	4.37	(0.85)	(0.51)	2.35	2.05	(4.23)	(3.99)
Emerging market debt bonds	6.83	6.40	(1.17)	(0.86)	9.44	9.10	(7.49)	(6.54)
Gross rate of return (excluding fees)	3.09	n.a.	0.13	0.35	2.74	2.24	(0.95)	(0.83)
Net rate of return (including all fees)	2.91	n.a.	(0.06)	0.16	2.58	2.08	(1.11)	(0.99)

VI. Composition of the portfolio by instrument

12. Table 6 shows the composition of the investment portfolio by instrument as at 31 March 2017, compared with IFAD's Investment Policy Statement (IPS) asset allocation.

Table 6
Investment portfolio by instrument as at 31 March 2017
(Thousands of United States dollars equivalent)

	31 March 2017		IFAD's (%) IPS asset allocation ^b	Difference (%)
	Actual portfolio allocation (US\$)	Actual portfolio allocation (%)		
Cash ^a	42 443	3.0	-	3.0
Time deposits	69 785	5.0	-	5.0
Global government bonds/agencies	492 129	35.2	50.0	(14.8)
Corporate credit bonds	506 328	36.2	25.0	11.2
Global inflation-indexed bonds	155 943	11.1	10.0	1.1
Emerging market debt bonds	139 168	9.9	15.0	(5.1)
Pending trades	(6 803)	(0.5)	-	(0.5)
Total	1 398 992	100.0	100.0	0.0

^a Includes operational cash (US\$24.5 million) and other cash held in investment portfolios pending reinvestment.

^b See EB 2016/119/R.36, IFAD's Investment Policy Statement, annex III.

VII. Risk measurements

13. The IPS risk-budgeting measures used are conditional value at risk (CVaR) and the ex ante tracking error, which are reported in subsections B and C. 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 over time.

Table 7
Effective durations of IFAD's investment portfolio and benchmarks
(Duration in number of years)

	31 March 2017		31 December 2016	
	Portfolio	Benchmark	Portfolio	Benchmark
Asset liability portfolio	2.44	0.00	1.57	0.00
Global liquidity portfolio	0.21	0.00	0.11	0.00
Chinese renminbi portfolio	0.15	0.00	0.07	0.00
Global government bonds	0.34	1.10	0.57	1.00
Global credit bonds	4.26	4.84	4.50	4.82
Global inflation-indexed bonds	5.69	5.25	5.87	5.33
Emerging market debt bonds	6.62	6.73	5.97	6.57
Total portfolio (including global strategic portfolio and operational cash)	2.90	3.02	2.83	2.97

Note: The total portfolio duration is lowered by the global strategic portfolio, reported at amortized cost, and the operational cash portfolio, as neither is subject to market fluctuations. The asset liability, global liquidity and Chinese renminbi portfolios are managed internally and have a duration benchmark of zero.

15. The overall portfolio duration was 2.90 years (2.83 years in 2016), 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 probable 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.

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 overall IFAD portfolio was 2.84 per cent, which is well below the approved risk budget. This current CVaR risk level means that the average loss of the overall portfolio under extreme market conditions could be US\$39.3 million.

Table 8

CVaRs of IFAD's asset classes

(95 per cent confidence level; 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 2017</i>	<i>31 December 2016</i>	
Asset liability portfolio	2.31	1.48	8.00
Global liquidity portfolio	2.32	2.25	2.00
Chinese renminbi portfolio	2.44	1.68	2.00
Global government bonds	0.51	0.34	2.00
Global credit bonds	4.70	4.86	7.00
Global inflation-indexed bonds	6.16	6.27	9.00
Emerging market debt bonds	9.77	9.58	15.00
Total portfolio (including global strategic portfolio and cash)	2.84	2.71	6.00

Note: The total portfolio CVaR is lowered by the global strategic portfolio, reported at amortized cost, and the operational cash portfolio, as neither is subject to market fluctuations.

C. Market risk: ex ante tracking error

18. The ex ante tracking error is a measure of how closely a portfolio is expected to track its benchmark. A higher tracking error indicates larger expected deviations.

Table 9

IFAD's investment portfolio ex ante tracking error

(Percentages)

	<i>Actual investment portfolio</i>		<i>IPS budget level</i>
	<i>31 March 2017</i>	<i>31 December 2016</i>	
Global government bonds	0.43	0.29	1.50
Global credit bonds	0.56	0.50	3.00
Global inflation-indexed bonds	0.57	0.61	2.50
Emerging market debt bonds	0.51	0.64	4.00

Note: Although IFAD's IPS prescribes a tracking error risk-tolerance level, the asset liability portfolio does not have a benchmark universe based on investment guidelines; instead, performance is tracked against the cost of funding. Similarly, the global liquidity and Chinese renminbi portfolios have a zero per cent benchmark. The portfolio tracking error is thus not reported, because the comparative benchmark is not representative of the actual portfolio universe allowed by the investment guidelines.

19. Current levels of ex ante tracking errors in individual portfolios are all below the prescribed budget levels, indicating a close resemblance between the portfolio strategy and the benchmark indices.

D. Credit risk: credit rating analysis

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

Table 10

Investment portfolio composition by credit ratings^a at 31 March 2017 and 31 December 2016 (total)

(Thousands of United States dollars equivalent)

	<i>Opera- tional cash</i>	<i>Global strategic portfolio</i>	<i>Global liquidity portfolio</i>	<i>Chinese renminbi portfolio</i>	<i>Global govern- ment bonds</i>	<i>Global credit bonds</i>	<i>Global inflation- indexed bonds</i>	<i>Emerging market debt</i>	<i>Asset liability portfolio</i>	<i>Total US\$ 31 March 2017</i>	<i>Total % 31 Mar 2017</i>	<i>Total % 31 Dec 2016</i>
AAA	-	60 000	133 039	-	102 956	20 227	133 112	-	2 131	451 465	32.3	31.9
AA+/-	-	89 477	23 577	-	41 555	54 863	22 832	33 040	76 006	341 349	24.4	25.7
A+/-	-	41 970	-	-	-	157 650	-	25 668	101 461	326 749	23.4	23.2
BBB+/-	-	503	-	-	-	25 299	-	80 461	67 743	174 006	12.4	10.7
Cash ^b	24 523	668	1 311	1	3 457	4 679	4 007	2 056	1 740	42 443	3.0	7.3
Time deposit	-	-	-	69 785	-	-	-	-	-	69 785	5.0	1.5
Pending trades ^c	-	-	-	-	-	(6 803)	-	-	-	(6 803)	(0.5)	(0.5)
Total	24 523	192 618	157 927	69 786	147 968	255 915	159 950	141 224	249 081	1 398 992	100.0	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.

^b Consists of cash and equivalents 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

21. 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 as its commitments, i.e. in SDR.
22. Over the last several months, IFAD's net asset position subject to the SDR currency composition was adjusted to reflect the inclusion of the Chinese renminbi and newly approved non-SDR loans (table 11).
23. At 31 March 2017, the net asset value amounted to US\$1,142.4 million.

Table 11
Currency composition of net assets in the form of cash, investments and other receivables
 (Thousands of United States dollars equivalent)

<i>Currency</i>	<i>Chinese renminbi</i>	<i>Euro group</i>	<i>Pound sterling</i>	<i>Japanese yen</i>	<i>United States dollar group</i>	<i>Total</i>
Cash and investments [*]	69 786	213 651	124 903	42 961	698 178	1 149 480
Contribution receivables from Member States	-	77 518	47 582	-	159 519	284 619
Less: Non-SDR denominated loans	-	(58 875)	-	-	(268 684)	(327 559)
Promissory notes	-	53 420	23 790	39 732	141 423	258 365
Less: commitments not denominated in SDR	-	(4 705)	-	-	(217 835)	(222 540)
Net asset amount	69 786	281 009	196 275	82 693	512 601	1 142 365
Net asset amount (percentage)	6.11	24.60	17.18	7.24	44.87	100.0
SDR weights (percentage)	10.88	30.47	7.89	7.83	42.93	100.0
Percentage difference	(4.77)	(5.87)	9.29	(0.59)	1.94	0.0

^{*} The difference in the cash and investments balance compared with other tables derives from the exclusion of assets in non-convertible currencies (US\$431,000 equivalent) and the ALP (US\$249.1 million equivalent). The latter is not subject to the SDR currency alignment as it is maintained in euros in line with its commitments.

F. Liquidity risk: minimum liquidity requirement

24. IFAD's latest financial model assumptions – incorporating 2016 resources available for commitment under the sustainable cash flow approach – calculate a minimum liquidity requirement of US\$582.5 million (60 per cent of gross annual outflows),⁵ which is comfortably cleared by IFAD's investment portfolio balance of US\$1,399.0 million (see table 1).

⁵ EB 2016/119/R.19.