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Investing in rural people

## Report on IFAD's Investment Portfolio for the First Semester of 2019

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For: Information

## Executive summary

1. During the first semester (S1) of 2019, IFAD's investment portfolio generated a positive net rate of return of 1.52 per cent with a positive net investment income of US\$15.97 million.<sup>1</sup>
2. The value of the investment portfolio in United States dollar terms increased by US\$87.1 million from US\$1,036.7 million at 31 December 2018 to US\$1,123.8 million at 30 June 2019. The main factors underlying this increase were net inflows of US\$74.3 million, a positive net investment income of US\$15.9 million and negative foreign exchange movements of US\$3.2 million.
3. The closure of the global credit portfolio and subsequent reinvestment in the global liquidity portfolio resulted in lower overall portfolio risk levels.

Table

### Key portfolio changes between the first semesters of 2018 and 2019

	<i>S1 2018</i>	<i>S1 2019</i>
Portfolio size (US\$ '000)	1 260 183	1 123 793
Net investment income (US\$ '000)	(2 053)	15 928
Rate of return (%)	(0.14)	1.52
Duration	1.21	0.52
Conditional value at risk	0.92	0.80

<sup>1</sup> 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.

# Report on IFAD's Investment Portfolio for the First Semester of 2019

## I. Market conditions

1. Bond yields fell as the United States Federal Reserve signalled moves towards a pause in interest rate hikes. Investment portfolios with a higher level of interest rate risk (or duration) benefited from this. In addition, credit spreads benefited from improved investor risk appetite. As the global credit and asset liability portfolios are predominantly invested in non-government bonds, their returns were further supported by tighter credit spreads.

## II. Portfolio allocation

2. During the first semester of 2019, the value of the investment portfolio in United States dollar terms increased by US\$87.1 million. The increase of the global liquidity portfolio was the result of the closure of the global credit portfolio. The increase in cash was due to the receipt of a EUR 50 million concessional partner loan from the Government of Finland at the end of June.

Table 1

### Movements affecting IFAD's investment portfolio in the first semester of 2019

(Thousands of United States dollars)

	Operational cash <sup>a</sup>	Global strategic portfolio	Global liquidity portfolio	Global credit bonds	Asset liability portfolio	Other <sup>b</sup>	Grand total
<b>Opening balance (31 December 2018)</b>	<b>45 150</b>	<b>143 990</b>	<b>219 575</b>	<b>150 671</b>	<b>476 680</b>	<b>663</b>	<b>1 036 729</b>
Net investment income	403	1 588	3 287	5 281	5 373	(4)	15 928
Net flows <sup>c</sup>	60 321	(14 744)	107 212	(154 562)	76 158	(45)	74 339
Foreign exchange movements	(723)	(24)	-	(1 183)	(12 74)	-	(3 203)
<b>Closing balance (30 June 2019)</b>	<b>105 152</b>	<b>130 810</b>	<b>330 073</b>	<b>207</b>	<b>556 937</b>	<b>613</b>	<b>1 123 793</b>

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

<sup>b</sup> Residual cash positions of portfolios closed in 2019 as well as cash held in Chinese renminbi.

<sup>c</sup> 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.

### III. Investment income

3. Gross investment income for the first semester of 2019 amounted to US\$16.6 million, with net investment income inclusive of all investment-related fees totalling US\$15.9 million. Table 2 presents a summary of the first semester 2019 investment income broken down by portfolio.

Table 2  
**Breakdown of IFAD's investment income by portfolio for the first semester of 2019**  
 (Thousands of United States dollars equivalent)

Investment income	<i>Operationa l cash</i>	<i>Global strategic portfolio</i>	<i>Global liquidity portfolio</i>	<i>Global credit bonds</i>	<i>Asset liability portfolio</i>	<i>Other</i>	<i>Total</i>
Interest and coupon <sup>a</sup> income	452	1 619	2 714	1 632	756	-	7 172
Realized market gains/(losses)	20	-	145	1 690	18	-	1 873
Unrealized market gains/(losses)	-	-	544	2 146	4 821	-	7 511
Amortization <sup>b</sup>	-	44	-	-	-	-	44
<b>Investment income before fees</b>	<b>472</b>	<b>1 663</b>	<b>3 403</b>	<b>5 468</b>	<b>5 594</b>	<b>-</b>	<b>16 600</b>
Investment manager fees	-	-	-	(112)	-	7	(105)
Custody fees	(2)	(19)	(22)	(22)	(27)	(11)	(103)
Bank charges	(67)	-	-	-	-	-	(67)
Advisory and other investment-related fees	-	(56)	(94)	(53)	(194)	-	(397)
<b>Investment income after fees</b>	<b>403</b>	<b>1 588</b>	<b>3 287</b>	<b>5 281</b>	<b>5 373</b>	<b>(4)</b>	<b>15 928</b>

<sup>a</sup> Including net payments on interest rate swap positions.

<sup>b</sup> 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.

### IV. Rate of return

4. The rate of return on IFAD's investment portfolio is calculated in local currency terms without reflecting the impact of foreign exchange movements.
5. Excluding the asset liability portfolio (ALP), IFAD's investment portfolio generated a positive gross return of 1.97 per cent for the first semester of 2019, 52 basis points above benchmark's return for the same period. The ALP generated a positive net return of 1.10 per cent versus a target rate of return of 0.10 per cent for the same period. The net rate of return for the entire investment portfolio, including the ALP, was 1.52 per cent.

Table 3  
**Performances for 2018, first semester of 2019**  
 (Percentages in local currency terms)

	<i>Performances in 2018 by semester</i>		<i>Performance in 2019</i>		
	<i>First semester</i>	<i>Second semester</i>	<i>First semester</i>	<i>First semester benchmark return</i>	<i>Difference</i>
Operational cash	0.35	0.53	0.61	0.61	-
Global strategic portfolio	1.08	1.14	1.20	0.53	0.67
Global liquidity portfolio	0.91	1.25	1.44	-	1.44
Global credit bonds	(1.05)	1.05	3.51	4.72	(1.21)
<b>Gross rate of return excluding ALP</b>	<b>(0.01)</b>	<b>1.02</b>	<b>1.97</b>	<b>1.45</b>	<b>0.52</b>
<b>Net rate of return excluding ALP</b>	<b>(0.10)</b>	<b>0.95</b>	<b>1.90</b>	<b>1.45</b>	<b>0.45</b>
ALP <sup>*</sup>	(0.19)	(0.72)	1.10	0.10	1.00
<b>Gross rate of return including ALP</b>	<b>(0.08)</b>	<b>0.29</b>	<b>1.58</b>	<b>n.a.</b>	<b>n.a.</b>
<b>Net rate of return including ALP</b>	<b>(0.14)</b>	<b>0.23</b>	<b>1.52</b>	<b>n.a.</b>	<b>n.a.</b>

\* The ALP benchmark is a target rate of return representing the cost of funding. It does not reflect the investment universe allowed by the guidelines.

Table 4  
**IFAD portfolio performance rolling average as at 30 June 2019**  
 (Percentages in local currency terms)

	<i>One year</i>	<i>Three years</i>	<i>Five years</i>
Portfolio performance	1.73	1.24	1.38

6. 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)

	<i>2018</i>		<i>2017</i>		<i>2016</i>		<i>2015</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	0.88	0.88	0.79	0.79	0.30	0.30	0.13	0.13
Global strategic portfolio	2.22	1.02	1.92	0.80	1.83	0.95	1.75	1.12
Asset liability portfolio	(0.91)	0.21	1.39	-	0.62	-	(0.78)	0.31
Chinese renminbi portfolio	1.46	0.00	3.72	-	0.48	-	-	-
Global government bonds	0.89	1.88	0.27	0.99	0.64	1.03	0.05	0.43
Global credit bonds	0.00	0.90	3.43	3.31	3.23	3.52	1.17	1.25
Global inflation indexed bonds	0.16	0.39	1.86	1.53	4.41	4.37	(0.85)	(0.51)
RAMP* portfolio	0.14	0.14	0.31	0.30	n.a.	n.a.	n.a.	n.a.
Emerging market debt bonds	(3.07)	(2.55)	8.45	7.64	6.83	6.40	(1.17)	(0.86)
<b>Gross rate of return (excluding fees)</b>	<b>0.21</b>	<b>n.a.</b>	<b>2.35</b>	<b>n.a.</b>	<b>3.09</b>	<b>n.a.</b>	<b>0.13</b>	<b>0.35</b>
<b>Net rate of return (including all fees)</b>	<b>0.09</b>	<b>n.a.</b>	<b>2.21</b>	<b>n.a.</b>	<b>2.91</b>	<b>n.a.</b>	<b>(0.06)</b>	<b>0.16</b>

\* World Bank's Reserves Advisory Management Programme (RAMP).

## V. Composition of the portfolio by instrument

7. Table 6 shows the composition of the investment portfolio by instrument as at 30 June 2019.

Table 6  
**Investment portfolio by instrument as at 30 June 2019**  
(Thousands of United States dollars equivalent)

	30 June 2019	
	Actual portfolio allocation (US\$)	Actual portfolio allocation (%)
Cash	149.1	13.3
Swaps	(3.2)	(0.3)
Time deposit	0.0	0.0
Global government bonds/agencies	537.7	47.8
Global credit bonds	440.2	39.2
<b>Total</b>	<b>1 123.8</b>	<b>100.0</b>

## VI. Risk measurements

8. The Investment Policy Statement (IPS) risk-budgeting measure is the conditional value at risk (CVaR) which is reported in subsection B. Other risk indicators are reported in subsections A, C, D, and E.

### A. Market risk: duration

9. Duration is a measure of the sensitivity of the market price of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. In general, a portfolio of securities with a lower duration can be expected to be less sensitive to interest-rate changes than a portfolio with a higher duration.

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

	30 June 2019		31 December 2018	
	Portfolio	Benchmark	Portfolio	Benchmark
Asset liability portfolio	0.51	0.50	0.65	0.50
Global liquidity portfolio	0.35	0.00	0.30	0.00
Global credit bonds	0.00	0.00	4.17	4.62
Global strategic portfolio	1.39	0.00	1.66	0.00
<b>Total portfolio</b> (including global strategic portfolio and operational cash)	<b>0.52</b>	<b>0.42</b>	<b>1.21</b>	<b>1.22</b>

10. The overall portfolio duration was 0.52 years (1.21 years in December 2018).

### B. Market risk: conditional value at risk

11. The one-year CVaR at 95 per cent is a measure of the potential 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.
12. The maximum risk tolerance of the IFAD portfolio is defined in the IPS as a CVaR of 3.0 per cent. The CVaR for the overall IFAD portfolio was 0.80 per cent, which is well below the approved risk budget. The current CVaR level of 0.80 per cent implies an average loss of US\$9.0 million under extreme market conditions.

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>30 June 2019</i>	<i>31 December 2018</i>
Asset liability portfolio	1.37	1.34
Global liquidity portfolio	0.92	0.64
Global credit bonds	0.00	3.51
<b>Total portfolio</b> (including global strategic portfolio and cash)	<b>0.80</b>	<b>1.03</b>

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. Credit risk: credit rating analysis

13. IFAD's IPS establishes a policy credit rating floor. Credit risk is managed by monitoring 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<sup>a</sup> at 30 June 2019**

(Thousands of United States dollars equivalent)

	<i>Operational cash</i>	<i>Global strategic portfolio</i>	<i>Global liquidity portfolio</i>	<i>Global credit bonds</i>	<i>Asset liability portfolio</i>	<i>Other</i>	<i>Total</i>	<i>Percentage</i>
AAA	-	42 466	233 060	-	-	-	275 526	24.5
AA+/-	-	36 529	78 322	-	182 708	-	297 558	26.5
A+/-	-	50 935	-	-	327 370	-	378 305	33.7
BBB+/-	-	-	-	-	26 464	-	26 464	2.4
Cash <sup>b</sup>	105 152	880	19 184	207	32 145	613	158 182	14.1
Time deposit	-	-	-	-	-	-	-	0.0
Pending trades <sup>c</sup>	-	-	-	-	(9 091)	-	(9 091)	(0.8)
Swaps	-	-	(492)	-	(2 658)	-	(3 150)	(0.3)
<b>Total</b>	<b>105 152</b>	<b>130 810</b>	<b>330 073</b>	<b>207</b>	<b>556 937</b>	<b>613</b>	<b>1 123 793</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 Standard and Poor's, Moody's or Fitch credit-rating agencies.

<sup>b</sup> 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.

<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.

### D. Currency risk: currency composition analysis

14. In order to immunize IFAD's short-term liquidity profile from foreign currency risk fluctuations, the Fund ensures that the currency composition of its projected inflows are aligned to its outflows over a 24-month horizon.

15. Projections show that the Fund's currency composition is adequate to cover the projected 24-month currency outflows.

Table 10

**Currency composition of assets and commitments as at 30 June 2019**

(Thousands of United States dollars equivalent)

<i>Category</i>	<i>Chinese yuan group</i>	<i>Euro group</i>	<i>British pound sterling group</i>	<i>Japanese yen group</i>	<i>United States dollar group</i>	<i>Grand total</i>
<b>Current liquidity</b>						
Cash	31 276	17 457	4 085	301	51 660	104 779
Investments	601	5 714	3 298	-	452 186	461 799
<b>Projected inflows</b>						
Contributions	44 427	198 672	60 602	41 610	234 911	580 222
Projected reflows	81 900	244 460	60 276	61 088	336 790	784 514
<b>Projected liquidity</b>	<b>158 204</b>	<b>466 302</b>	<b>128 262</b>	<b>102 999</b>	<b>1 075 547</b>	<b>1 931 314</b>
<b>Projected outflows</b>						
Projected disbursements	(95 760)	(339 374)	(70 477)	(71 426)	(951 475)	(1 528 514)
Projected operating expenses	-	(183 545)	-	-	(183 545)	(367 091)
<b>Subtotal outflows</b>	<b>(95 760)</b>	<b>(522 920)</b>	<b>(70 477)</b>	<b>(71 426)</b>	<b>(1 135 021)</b>	<b>(1 895 604)</b>
<b>Hedging</b>						
Currency forwards	-	-	-	-	-	-
<b>Subtotal hedging</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Projected liquidity(deficit)/excess</b>	<b>62 444</b>	<b>(56 617)</b>	<b>57 784</b>	<b>31 572</b>	<b>(59 474)</b>	<b>35 709</b>
(Deficit)/excess as % of commitments	3.29%	(2.99%)	3.05%	1.67%	(3.14%)	1.88%

<sup>1</sup> The main difference in the cash and investments balance compared with other tables derives from the exclusion of assets in non-convertible currencies (US\$278,000 equivalent) and the ALP (US\$557.0 million equivalent). The latter is not subject to the special drawing right currency alignment as it is maintained in euros in line with its commitments. The residual marginal difference is due to the composition report being based on the unaudited figures available at the moment the report is run.

## F. Liquidity risk: minimum liquidity requirement

16. IFAD's latest financial model assumptions – incorporating 2018 financial resources available for commitment under the sustainable cash flow approach – calculate a minimum liquidity requirement of US\$514.0 million (60 per cent of gross annual outflows)<sup>2</sup>, which is comfortably cleared by IFAD's investment portfolio balance of US\$1,123.8 million (see table in the executive summary).

<sup>2</sup> See EB 2018/125/R.42.