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Investing in rural people

IFAD After-Service Medical Coverage Scheme Trust Fund Investment Policy Statement

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Abbreviations and acronyms

| | |
|-------|--|
| ABS | asset-backed securities |
| ALM | asset and liability management |
| ASMCS | IFAD After-Service Medical Coverage Scheme |
| CVaR | conditional value-at-risk |
| IPS | Investment Policy Statement |
| LP | liability proxy |
| UNGC | United Nations Global Compact |

Executive summary

1. The IFAD After-Service Medical Coverage Scheme (ASMCS) Trust Fund was established in 2003 by the Governing Council pursuant to Governing Council resolution 132/XXVI in order to ensure funds are set aside to provide medical benefits to IFAD staff receiving a United Nations pension. In 2015 Governing Council resolution 132/XXVI was superseded by resolution 188/XXXVIII, which included a delegation of authority for approval of the ASMCS Trust Fund Investment Policy Statement (IPS) to the Executive Board, removed the requirement to follow the IFAD IPS for regular resources and deleted the exclusion of equity from investments.
2. The Governing Council delegates, through the above-mentioned resolution, authority to the Executive Board to make any changes to the ASMCS Trust Fund IPS as may be necessary from time to time. In accordance with the existing IPS, the Executive Board reviews the IPS every three years, incorporating the outcome of an asset and liability management (ALM) study, to be performed by a professional financial adviser. Furthermore, having considered the report, the Executive Board may amend and update the IPS accordingly, at its last session of the calendar year, on the basis of a report submitted to it by the President.
3. In 2021, the ALM review was performed by BlackRock. The outcome of the study confirmed the need for enhancements to the Trust Fund's duration-matching towards liabilities and for access to broader opportunity sets to allow for further diversification and higher returns. International Accounting Standard 19 requires organizations to recognize liability associated with employee and former employee benefits. Future medical benefits are determined based on results of yearly actuarial evaluation.
4. The study recommends a phased approach to a liability-driven investing (LDI) framework. An LDI framework will define the portfolio using relative measures consisting of relative conditional value-at-risk (CVaR) and tracking error instead of absolute risk measures to steer the portfolio closer to the long-term characteristics of ASMCS's liabilities. The current absolute CVaR limit exposes IFAD to risks. The changes in interest rates and spreads used to discount the future cash flows underlying the liabilities of IFAD can easily rise to a considerably higher degree than the value of the current conservative portfolio. This was demonstrated in 2019, during which interest rates fell considerably, increasing the value of the liabilities. Consequently IFAD had to transfer US\$10 million to the Trust Fund in 2020, as the value of the portfolio did not increase to the same degree.
5. Further diversification into developed market equities, sub-investment grade bonds and investment grade asset-backed securities (ABS) is recommended to enhance not only returns but also the link between the asset and liability valuations. As noted by Blackrock in its asset allocation study, sub-investment grade bonds offer higher risk-adjusted returns, apart from providing diversification benefits within the traditional fixed-income asset class. Sub-investment grade bonds – generally considered safer than equities – will be a natural addition to the current instrument list, which already allows for allocation to equities taking into account the investment horizon, required return and risk tolerance of the Trust Fund.
6. The Executive Board is invited to approve the ASMCS's IPS, as contained in this document, which amends and supersedes the current IPS. Key changes to the IPS include shifting to relative CVaR from absolute CVaR, limiting exposure to developed market equities to up to 30 per cent of the portfolio, introducing sub-investment grade bonds as a new asset class with a limit of up to 10 per cent, and extending exposure to investment grade ABS from AAA-rated ABS.

7. The ASMCS Trust Fund IPS reflects the risk profile of the ASMCS Trust Fund but follows the format of the IFAD IPS. Wherever appropriate, the Trust Fund IPS also incorporates a number of IFAD IPS provisions, including sections on governance, risk management and a framework for the integration of environmental, social and governance considerations in investment decisions.

Preamble

1. The present Investment Policy Statement is adopted to address the need to establish the basic directives for the investment of the resources of the IFAD After-Service Medical Coverage Scheme (ASMCS) Trust Fund. It aims to abide – as far as possible and within the objective and functions set forth in Governing Council resolution 132/XXVI superseded by Governing Council resolution 188/XXXVIII establishing the IFAD ASMCS Trust Fund by the principles of the United Nations Global Compact.
2. The responsibility to set the Investment Policy Statement rests with the Executive Board, within the parameters established by the Governing Council, whereas the President remains responsible for adopting guidelines for staff and external fund managers concerning investment of the IFAD ASMCS Trust Fund’s resources.¹

¹ Detailed organizational structure and roles and responsibilities as outlined in the document Control Framework for IFAD Investments apply also to this Investment Policy System. The latest version is detailed in EB 2020/131/R.24/Add.1.

Recommendation for approval

The Executive Board is invited to approve the IFAD After-Service Medical Coverage Scheme Trust Fund Investment Policy Statement, as contained in this document.

I. Scope and purpose

1. This statement has been drafted in accordance with the Chartered Financial Analyst (CFA) Institute's Elements of an Investment Policy Statement for Institutional Investors, which suggests desirable components of an investment policy statement for institutional investors. Minimum components of such a statement include the governance of investments, objectives for return and risk, and criteria for performance and risk management.¹
2. The IFAD After-Service Medical Coverage Scheme Trust Fund Investment Policy Statement (IFAD ASMCS Trust Fund IPS) governs the investment of the Trust Fund's assets and provides an investment management framework. The purpose of this statement is to document the Trust Fund's investment policy by:
 - (i) Identifying key roles and responsibilities relating to the governance of the Trust Fund's investment portfolio (section II);
 - (ii) Setting forth the Trust Fund's investment objectives for risk and return, including eligible asset classes (section III);
 - (iii) Defining key components of investment guidelines (section III); and
 - (iv) Establishing formalized criteria to measure, monitor and evaluate performance and risk (section IV).
3. Accordingly, the present document is divided into four sections. Annex I, the risk budget for the ASMCS investment portfolio, is to be considered an integral part of the document, while in annex II, the present risk budget and strategic asset allocation approved by the President, is provided for information only.

A. Definition of investors and assets

4. The IFAD ASMCS Trust Fund was established pursuant to Governing Council resolution 132/XXVI and is superseded by resolution 188/XXXVIII.
5. The ASMCS Trust Fund is administered by IFAD² and provides medical benefits for IFAD staff receiving a United Nations pension and for eligible former IFAD staff on a cost-sharing basis. In accordance with International Accounting Standard No. 19 Revised, the Trust Fund was established to cover IFAD's liabilities under the ASMCS.
6. IFAD has been appointed the administrator of the IFAD ASMCS Trust Fund, which includes also responsibility for managing the fund's investments.

B. Actors and their roles

Governing Council

7. The Governing Council is IFAD's main decision-making body. It is composed of representatives of the Member States. All powers of IFAD are vested in the

¹ CFA Institute, *Elements of an Investment Policy Statement for Institutional Investors* (May 2010), <https://www.cfainstitute.org/-/media/documents/article/position-paper/investment-policy-statement-institutional-investors.ashx>.

² Prior to 2003, the ASMCS was administered by the Food and Agriculture Organization of the United Nations and provided medical benefits for staff receiving a United Nations pension and eligible former staff on a cost-sharing basis. Following the issuance of International Accounting Standard No. 19, which required the establishment of a separate legal entity to hold the ASMCS assets, a trust fund for the ASMCS was established and IFAD was appointed the administrator of the IFAD ASMCS Trust Fund (GC 26/L.7).

Governing Council. Subject to the limitations stated in IFAD's charter, it may delegate powers to the Executive Board.

Executive Board

8. The Executive Board is the non-plenary executive organ of IFAD and is composed of 36 Member States. In addition to providing oversight on the functions attributed to the President, it is responsible for the conduct of the general operations of IFAD and exercises the powers given to it by the charter or delegated by the Governing Council.

Audit Committee

9. The Executive Board has established a subsidiary body, the Audit Committee, to which it has referred, inter alia, questions concerning the investment of IFAD's resources in preparation for decisions by the Executive Board.

The President

10. The President is the legal representative of IFAD. Under the control and direction of the Governing Council and the Executive Board, the President heads, organizes, appoints and manages IFAD's staff, and is responsible for conducting the business of IFAD. Based on his/her authority to organize staff, the President may reconfigure IFAD's organizational structure.

II. Governance

A. Responsibilities for determining, executing and monitoring the investment policy

11. The President will ensure implementation and monitoring of all aspects of the IPS.

B. Process for reviewing and updating the investment policy

12. The appropriateness of the IPS will be reviewed every three years by the Executive Board and will incorporate the outcome of an asset and liability management (ALM) study, to be performed by a professional financial adviser. The Executive Board, at its last session of the calendar year, will review the IPS on the basis of a report submitted to it by the President. Having considered the report, the Executive Board may amend and update the IPS accordingly.

C. Responsibilities for approving investment guidelines and changes thereto

13. The President shall approve and adopt investment guidelines for managing the ASMCS portfolio with due regard to this IPS.

D. Responsibilities for engaging and discharging the external investment manager, the custodian bank and other financial advisers

14. The President is responsible for the appointment and dismissal of the external investment manager, the custodian bank and other financial advisers required to execute the Fund's investments.
15. For the selection of the external investment manager, the custodian bank and other financial advisers, the President will follow a selection process governed by IFAD's Procurement Guidelines for Headquarters.
16. The external investment manager must fulfil the following initial requirements in order to be considered for the selection process:
 - (i) Manager must adhere to the governing legislation and regulation in the relevant country concerning financial services, including the authority of the competent regulatory body;

- (ii) Manager should endeavour to comply with the CFA Institute Global Investment Performance Standards and to provide at least historical quarterly performance data calculated on a time-weighted basis, based on a composite of fully discretionary accounts or similar investment style, and reported net and gross of fees;
 - (iii) Manager must provide detailed information on the history of the firm, key personnel, key clients, fee schedule and support personnel; and
 - (iv) Manager must clearly articulate the investment strategy that will be followed and document that the strategy has been adhered to over time.
17. The selected external investment manager is formally appointed on the signing of its investment management agreement by the President. The agreement outlines in detail the responsibilities of the manager.³
18. A copy of this IPS is provided to the investment management firm retained to provide investment services to IFAD. The firm will acknowledge receipt of the document and acceptance of its content in writing as part of the agreement. Sharing of the IPS is intended to make the manager aware of the overarching principles as a common basis and as applicable to the investment guidelines of the investment portfolio.

E. Responsibilities for monitoring the external investment manager, the custodian bank and other financial advisers

19. The President will ensure that properly equipped organizational units are made responsible for developing and maintaining relationships with the external investment manager and the custodian bank.
20. The President will ensure that the appointed investment manager fulfils its mandate within the contractual obligations outlined in the relevant investment management agreement, including the investment guidelines incorporated in the agreement. This may comprise:
- (i) Follow-up with the external investment manager on compliance issues following the preparation of compliance reports and/or alerts resulting from these. All compliance issues are summarized in a monthly compliance audit report;
 - (ii) Monitoring of criteria that would result in placing an investment manager on "watch" for consideration of possible replacement;
 - (iii) Monthly monitoring of the performance of the external investment manager relative to benchmark and other key performance indicators (an annual report is submitted to the Executive Board);
 - (iv) Monthly and quarterly review of performance and risk statistics provided by the custodian bank;
 - (v) Month-end review of trade executions; and
 - (vi) Regular review meetings with the external investment manager and other service providers.

³ Responsibilities include: investment authority, liability of manager, representations and warranties, performance benchmark, fees, reporting and other administrative requirements. The IPS and relevant investment guidelines are incorporated in each agreement.

21. With regard to the custodian bank, the President will ensure the following:
 - (i) Monitoring adherence to the master custody agreement;
 - (ii) Monitoring the service-level agreement and key performance indicators that form part of the master custody agreement; and
 - (iii) Quarterly service review meetings.

F. Responsibilities for the determination of asset allocation

22. Strategic asset allocation is driven by the financial and actuarial characteristics of the ASMCS liabilities and the ASMCS Trust Fund's risk budget. The strategic asset allocation shall be verified in a three-year cycle by an ALM study performed by a professional financial adviser.
23. Under this approach necessary adjustments are made to the investment portfolio composition to ensure an optimal portfolio to mitigate risks and remain within the approved risk budget. The risk budget for the overall portfolio is approved by the Executive Board. Within this limit, the President approves the asset allocation for the investment portfolio.

G. Responsibilities for risk management, monitoring and reporting

24. The President will ensure ongoing and rigorous internal monitoring of and adherence to the risk budget while closely analysing any investment risk on the externally managed portfolio. This may comprise:
 - (i) Day-to-day monitoring of the portfolio for compliance and risk-related issues;
 - (ii) Follow-up with the external investment manager on compliance issues;
 - (iii) Follow-up with the external manager on credit issues when the risk level reaches the maximum allowable limit as stated in the risk budget;
 - (iv) Review of level of risk budget measures and of other relevant risk measures on a monthly basis; and
 - (v) Review of the status of the alignment of the IFAD ASMCS Trust Fund's assets with the currency exposure of IFAD's liabilities under the ASMCS for currency risk hedging purposes and recommend corrective actions when needed.

III. Investments, return and risk objectives

A. Overall investment objective

25. The Governing Council adopted resolution 188/XXXVIII, which states that the purpose for the ASMCS Trust Fund is to hold sufficient funds to cover IFAD's liability to employees and former employees for the ASMCS. To this end the resolution stipulates that "IFAD will invest the resources of the IFAD ASMCS Trust Fund prudently [and] non-speculatively". In light of this resolution, the ASMCS Trust Fund investments will adopt the general principles for the investment of funds as outlined in the Financial Regulations of IFAD VIII.2:
 - (i) **Security** – meaning preserving value of assets implying that no negative return should be strived for within the parameters in the risk budget approved by the Executive Board.
 - (ii) **Liquidity** – meaning liquidity of assets. Given the long-term nature of ASMCS's liabilities, the requirements for liquidity differs from those of IFAD's liquidity portfolio. The ASMC's portfolio should contain investment in instruments that are publicly traded in sufficient volume to facilitate, under

most market conditions, prompt sale without significant market price effect to meet short-term obligations for after-service medical coverage.⁴

- (iii) **Return** – the long-term average return over a period of 40 years should be equal to or greater than the return used as discount rate to value the amount of the ASMCS liability calculated using the funding valuation⁵ methodology in order to minimize any funding gap and extraordinary contributions by IFAD’s regular budget as foreseen in resolution 188/XXXVIII.

B. Risk tolerance

26. The level of risk taken should be consistent with the overall investment objective of the IFAD ASMCS Trust Fund as described in section III.A., paragraph 26. It is recognized and acknowledged that some risk must be assumed in order to achieve the investment objectives. Quantified risk tolerance levels are determined and approved within the risk-budgeting framework in annex I. The IFAD ASMCS Trust Fund actors are responsible for understanding the risks and for measuring and monitoring them continually.

C. Eligible asset classes

27. The following asset classes are eligible within the IFAD ASMCS Trust Fund’s asset allocation:
- (i) Short-term investments, including but not limited to time deposits, credit-linked notes, floating rate notes, treasury bills or equivalent securities
 - (ii) Government and government agencies
 - i. fixed-income securities
 - ii. inflation-linked fixed-income securities
 - (iii) Suprationals
 - (iv) Corporate bonds
 - (v) Asset-backed securities (only agency-issued or guaranteed)
 - (vi) Developed market equities (Morgan Stanley Capital International Index – developed market equities)
 - (vii) Derivatives: currency forwards, exchange-traded futures and options, interest rate swaps and credit default swaps
28. Asset-backed securities shall have a minimum rating of investment grade. Fixed-income instruments rated below investment grade shall be less than 10 per cent of the total portfolio.
29. Equities shall be less than 30 per cent of the total portfolio.
30. Counterparties for derivatives shall have a minimum short-term rating of A-1 (Standard & Poor’s or Fitch) or P-1 (Moody’s).
31. The IFAD ASMCS Trust Fund does not use any form of leverage.⁶

⁴ The ASMCS operates on a pay-as-you-go basis, meeting annual costs out of annual budgets and staff contributions. Hence the purpose of the ASMCS Trust Fund is to cover the after-service medical costs for eligible staff in case IFAD ceases to exist.

⁵ Extraordinary contributions are made to the Trust Fund based on the amount of the liability derived from the funding valuation methodology as opposed to the accounting valuation, as the funding valuation is used to calculate the funding ratio.

⁶ Leverage, based on the CFA Institute’s definition, is defined as a level in excess of capital invested in that asset or exposure to any asset in excess of the market value appreciation of the asset.

D. Environmental, social and governance principles

32. Responsible investing is, in addition to more traditional financial factors, the consideration of environmental, social and governance (ESG) factors in the choice of financial investments.
33. IFAD is a responsible investor. Its main objective is to invest in securities where the issuer, at a minimum, meets fundamental responsibilities in, inter alia, the areas of human rights, labour, environment and anticorruption. Therefore IFAD adheres to the Ten Principles of the United Nations Global Compact (UNGC).⁷ Only investments that comply with the UNGC's principles are considered by IFAD as eligible for investment.
34. Compliance with UNGC's principles is ensured through systematic exclusion by norms-based screening of the following securities:
 - (i) Securities issued by entities involved in unethical products or services, including, but not limited to, weapons and ammunitions, coal extraction, coal-fired power generation, tobacco, alcohol and gambling; and
 - (ii) Securities that are issued by entities included in the United Nations Security Council Consolidated List of sanctioned countries.⁸
35. Subject to availability of market issuance and to the risk tolerance levels prescribed in section IV, IFAD endeavours to invest in green bonds and other thematic ESG securities, including supranationals, sovereign and government agency bonds, corporate bonds and asset backed securities in the impact bond market.

E. Investment Guidelines

36. The investment guidelines are approved by the President. The guidelines are incorporated into the investment management agreement and will include at least the following components:
 - (i) Investment objectives: defining expected return and risk;
 - (ii) Risk budget (tracking error, etc.);
 - (iii) Reporting currency;
 - (iv) Performance benchmark;
 - (v) Eligible currencies;
 - (vi) Eligible instruments;
 - (vii) Minimum and maximum portfolio duration for the fixed-income portfolio;
 - (viii) Credit quality;
 - (ix) Diversification requirements; and
 - (x) Clearing for futures and options.
37. The benchmark identified in the investment guidelines must meet the following criteria: (i) unambiguous, transparent and simple; (ii) investable and replicable; (iii) measurable and stable; (iv) appropriate to the investment purpose; (v) reflective of current investment opinions; and (vi) specified in advance.

⁷ <https://www.unglobalcompact.org/what-is-gc/mission/principles>.

⁸ <https://www.un.org/securitycouncil/content/un-sc-consolidated-list>.

IV. Risk management framework and performance measurement

A. Risk management framework, risk budgeting, decision-making process

Risk management framework

38. The IFAD ASMCS Trust Fund's investments are subject to a number of risk types: interest rate, currency, credit, liquidity and operational risks (see section IV.B.). These risks are constantly monitored and measured on a monthly basis with appropriate risk metrics either provided by the custodian or derived from internal analyses.
39. The President will ensure that appropriate organizational units are made responsible for managing, monitoring, analysing and assessing risks and reporting risk levels in the same manner as for the IFAD IPS.

Risk budgeting

40. Risk budgeting is the procedure of allocating risk within funds. It entails setting predetermined risk limits for the investment portfolio. These measures are monitored and the portfolio adjusted whenever they exceed the tolerance level.
41. The risk budget for the portfolio (see annex I) is approved and adopted by the Executive Board and is monitored in line with the procedures in place for IFAD's IPS.
42. As part of the annual Report on IFAD's Investment Portfolio, the Executive Board will receive updates on the IFAD ASMCS Trust Fund's investment portfolio performance and risk level versus established risk budgets, and will be informed of any adjustments to be made to align with agreed risk levels.
43. The IFAD ASMCS Trust Fund's external asset manager will engage in active management, consistent with the risk budget and tracking error limits provided. Active management is limited to a discretionary authority to address the tracking errors and any other constraints deriving from the risk management framework. Deviations from the benchmark are addressed under this discretionary authority and are intended to optimize the external (or internal if any) asset manager's skills and the derived return in the risk-budgeting context.

Decision-making process for establishing and rebalancing the portfolio allocation in line with risk tolerance limits

44. Should one or more of the risk measures exceed the budgeted level, the President shall ensure that an analysis to highlight the source of increased risk is carried out.
45. Should the excess overall portfolio risk stem from joint factors in overall asset allocation, the President will ensure that various options are analysed in order to formulate actions to bring back the overall risk profile of the portfolio to the budgeted level.
46. Any risk-mitigating measure(s) taken will be reported to the Executive Board as part of the Report on IFAD's Investment Portfolio on an annual basis.

B. Risk types and metrics

47. The President will ensure that analyses are performed and reports prepared on the following risks.

Interest rate risk

48. Interest rate risk, including volatility risk, is monitored for the overall portfolio and for single managers based on measures provided on a monthly basis by the custodian or by another external risk management company. Examples of these

measures include the portfolio's standard deviation, the value-at-risk, the conditional value-at-risk and the active risk compared with benchmarks.

49. The data provided by the custodian are complemented by internal independent analyses through the Risk and Compliance Function on single securities performed through the use of sources such as Bloomberg and other market sources.

Credit risk

50. Credit risk, in addition to ongoing internal overview and monitoring, is managed through the establishment of a minimum rating floor in the ASMCS IPS and investment guidelines. The eligibility of individual securities and issuers is determined on the basis of ratings by major credit-rating agencies.

Counterparty risk

51. Counterparty risk is managed for all investments through establishment of a minimum rating for eligible counterparties, including banks for operational cash and for short-term investments. Counterparty risk will also be managed by capping exposure to each issuer/bank.

Currency risk

52. Currency risk is managed on an asset liability management basis and monitored through a comparison between the composition of the IFAD ASMCS Trust Fund assets and the ASMCS claims' currency exposure. The liabilities of IFAD under the ASMCS are currently expressed in both euros and United States dollars. Consequently, the Fund's overall assets are maintained in such a proportion as to ensure IFAD's liabilities are matched, to the extent possible, by assets denominated in, or hedged into, the relevant currencies.⁹
53. Any currency changes within IFAD's ASMCS liabilities, as determined by the annual actuarial study, will be applied to the ASMCS asset portfolio to avoid currency risk exposure.
54. Monitoring of the status of alignment to the ASMCS claims' currency exposure is performed on a monthly basis and changes may be implemented in the asset portfolio in order to mitigate currency risk.

Operational risk

55. Operational risk includes all risk sources other than those stated above, including business continuity and legal risk.
56. The President will ensure that any legal risk is assessed by the Office of the General Counsel.
57. The President will ensure that procedural risk is addressed by establishing a clearly defined framework of responsibility and accountability within IFAD's financial structure.

Integrity Risk

58. IFAD's Anti-Money-Laundering and Countering the Financing of Terrorism Policy seeks to reduce the risk that IFAD conducts business with counterparties that are on the sanctions list that IFAD has adopted, or have been involved in money-laundering, terrorism financing or related risks so as to reduce the risk of IFAD's exposure to serious reputational damage, financial loss or legal liability.
59. The President will ensure the screening of all potential counterparties and the ongoing monitoring of existing counterparties.

⁹ As of December 2020, the currency exposure is approximately 70 per cent in euros and 30 per cent in United States dollars, based on AON Actuarial Valuation Report from February 2021.

C. Performance measurement and reporting

Performance measurement

60. The custodian calculates performance of the investment portfolio and provides a monthly update.
61. Performance of the investment portfolio is calculated both in United States dollars and in local currency equivalents, i.e. by stripping out the effect of fluctuations of the currencies in which the portfolio is invested.
62. Performance is compared with the relative benchmark index and out- and underperformances are highlighted in the reports.
63. The custodian also provides risk-adjusted return measures on the overall portfolio and by manager, including the Sharpe Ratio, tracking error and information ratio, and beta, alpha and r-squared.
64. On a quarterly basis, the custodian provides performance attribution analysis for the portfolio.

Performance reporting

65. The President will ensure that a monthly overall analysis is carried out on portfolio performance in United States dollars, together with performance attribution, and that the performance in local currency equivalents is also reported.
66. The overall portfolio and benchmark performance in local currency terms will be reported annually to the Executive Board at its first session of the year in the Report on IFAD's Investment Portfolio. The report will include performance figures for the previous year.
67. Should the manager show a significantly poor performance for a period of three or more months, or should a sudden change in a manager's performance trend be observed in a specific month, the manager will be contacted and a written explanation of the performance trend will be required. If the underperformance persists, the President will take the necessary measures to ensure that a strategy and corrective action for the underperforming manager are put in place.

D. Monitoring of compliance

68. The President will ensure performance of the following: monitoring of the external investment manager's compliance with ASMCS's investment guidelines by ensuring that there is always a first and second line of defence for monitoring risks.

Risk budget – IFAD After-Service Medical Coverage Scheme (ASMCS) investment portfolio

This annex is an integral part of the IFAD ASMCS Trust Fund's Investment Policy Statement.

I. Key risk measure

- **Liability proxy (LP).** For the accounting valuation, in line with International Accounting Standard No. 19 requirements and practices adopted by other United Nations agencies, IFAD uses a liability discount rate based on spot yields on high-quality corporate bonds. To reflect the characteristics of the ASMCS liabilities for asset management purposes the LP shall be the Bloomberg Corporate Bond Index, currency hedged into the target currency composition of the Trust Fund.
- **Conditional value-at-risk (CVaR) relative to the liability proxy.** The ASMCS CVaR shall be measured relative to the LP, i.e. it implicitly subtracts the expected return of the liabilities from that of the assets and then calculates the CVaR of this difference. CVaR shall be calculated at 95 per cent confidence level over a one-year horizon (1-year CVaR) relative to the LP. CVaR is the average investment (nominal) loss in the 5 per cent of worst-case scenarios of the overall portfolio over a one-year horizon. This measure quantifies the distribution of losses in the 5 per cent left tail and is an indicator of so-called "tail risk".

II. Risk tolerance levels

- **1-year CVaR relative to the LP at 95 per cent confidence level.** Budget level: **Maximum 8.0 per cent** of total portfolio market value. If the CVaR level reaches 8.0 per cent of total portfolio market value, steps will be taken to reduce the risk level, including but not limited to steps to rebalance the investment portfolios' asset allocations.

Risk budget and strategic asset allocation as at 31 December 2021

This annex is for information only.

As at December 2021 the portfolio is managed as a single mandate.

I. Risk tolerance level

1. Ex ante tracking error (one-year forward-looking)
 - ACMCS global diversified fixed-income portfolio: maximum 3.0 per cent
2. 1-year conditional value-at-risk at 95 per cent confidence level
 - ACMCS global diversified fixed-income portfolio: 8.0 per cent

II. Strategic asset allocation changes following the PricewaterhouseCoopers (PwC) outcome

Current strategic asset allocation within the IFAD After-Service Medical Coverage Scheme Trust Fund's risk budget:

| <i>Asset Type</i> | <i>Allocation</i> |
|----------------------------------|-------------------|
| Corporate fixed income | 50-100 per cent |
| Government bonds | 0-50 per cent |
| • Developed markets | 0-25 per cent |
| • Emerging markets hard currency | 0-25 per cent |
| Equity developed market | 0-25 per cent |

- The present strategic asset allocation is based on IFAD's review, in 2017, of a proposed asset allocation in a study performed by PwC. In 2021, the asset and liability management study was performed by BlackRock. The proposed amendments to the Investment Policy Statement are based on IFAD's review of the BlackRock study.