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Investing in rural people

Report on IFAD's Investment Portfolio for 2021

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For: **Information**

Executive summary

1. During 2021, the net rate of return¹ for IFAD's investment portfolio was 0.16 per cent with a positive net investment income of US\$2.92 million. The net investment income was lower than in 2020 due mainly to higher expenses from the derivatives activity, with the more active hedging strategies for fixed coupon bonds. Negative interest rates and higher bank charges for IFAD's operational accounts and unrealized market losses also contributed to the lower investment income. Nevertheless, amid spread-widening across sub-three year bonds attributed to interest rate volatility and poor liquidity in the markets, particularly during the fourth quarter (Q4) of 2021, the portfolio outperformed the benchmark by far more than in the previous quarter and previous year, with the investment tranche in United States dollars outperforming the benchmark by 0.61 per cent (versus 0.02 per cent in 2020) and the investment tranche in euros outperforming the benchmark by 0.68 per cent (versus underperformance by 0.03 per cent in 2020).
2. The value of the investment portfolio in United States dollar terms increased by US\$239 million, from US\$1.165 billion as at 31 December 2020 to US\$1.405 billion as at 31 December 2021. The main factors underlying this increase were net inflows of US\$294.1 million and, to a lesser extent, the positive net investment income. This was partially offset by the outflows from foreign exchange movements of US\$57.6 million.
3. On risk metrics, the portfolio's conditional value at risk (CVaR) decreased from 1.06 to 0.30 per cent in Q4.² The indicator remained within the risk tolerance level of 3 per cent defined in the Investment Policy Statement (IPS). Other relevant portfolio risk levels at the end of Q4 2021 are shown below:
 - The portfolio duration level decreased from 0.60 years to 0.20 years; and
 - The fixed-income investments were fully allocated in high investment-grade instruments rated at A- and above.
4. Overall, the risk management of the investment portfolio showed no breaches of risk tolerance levels as defined in the IPS.

Table 1
Key portfolio changes during 2021

	Q4 2021	Q4 2020
Portfolio size (thousands of US\$)	1 404 686	1 165 284
Net investment income (thousands of US\$)	2 919	4 614
Net rate of return (%)	0.16	0.55
Duration	0.20	0.60
CVaR historical 1-year (%)	0.30	1.06

¹ The net rate of return computed by the custodian, Northern Trust, is a performance measurement equal to the internal rate of return after fees and carried interest are factored in.

² The CVaR for IFAD's liquidity portfolio is computed as one-year CVaR at 95 per cent confidence level as defined in the Investment Policy Statement and the investment guidelines. During Q2 of 2021, as part of the due diligence performed by the Treasury Services Division, the custodian computations for CVaR and risk metrics were reviewed. Crucially, the review concluded that the methodology and assumptions applied by the custodian did not fully reflect the real risk for IFAD's investment portfolio. Hence, as of Q2 of 2021, the figures reported in this report are retrieved from the Bloomberg PORT solution, a well-known and widely used risk metrics tool.

Report on IFAD's Investment Portfolio for 2021

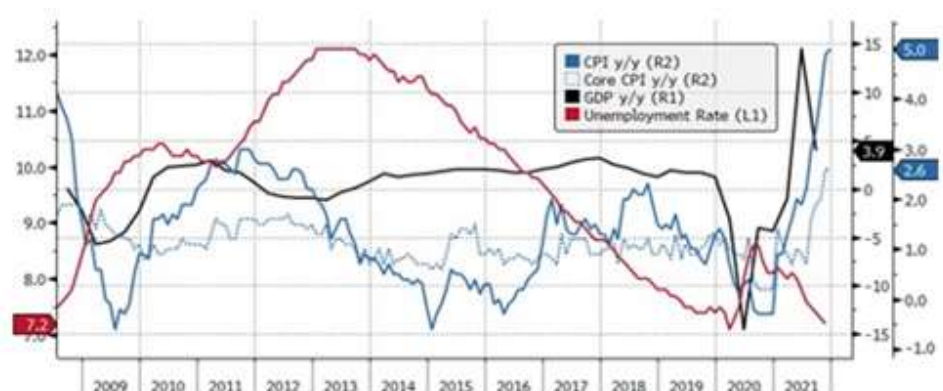
I. Market conditions

1. With the peak of the global health crisis largely over, policy focus has started shifting away from emergency amelioration towards longer-term priorities. During the last quarter, the United States Federal Reserve System announced plans to wind down its programme of bond purchases at a faster pace, paving the way for higher United States interest rates in 2022. Meanwhile, the European Central Bank (ECB) announced it would scale back its crisis bond-buying programme and, in March, halt bond purchases altogether in response to inflation. The fight against inflation took a decisive turn in December, when the Bank of England raised interest rates for the first time in three years despite immediate short-term concerns over the economy.
2. With the United States economy nearing full employment, the Chair of the Federal Reserve indicated that increased policy support was not needed and that the Federal Reserve was doubling the pace of its bond-buying taper with the intention of ending by mid-March the quantitative easing programme initiated to support the pandemic-affected economy. Inflation in the United States has surged by 6.8 per cent from a year ago, more than expected and its fastest rate since 1982. Data released on total manufacturing signal forthcoming economic expansion.
3. Likewise, inflation in the Eurozone outstripped consensus forecasts, soaring to 4.9 per cent, its highest level since the euro was introduced, and putting pressure on the ECB to review its policy of ultra-low interest rates. However, business activity slowed after restrictions to tackle surging COVID-19 cases hit the services sector. The continuing high degree of uncertainty about both the inflation outlook and the pandemic could prevent the ECB from delivering a clear message, which could lead to elevated volatility.
4. IFAD will remain cautious about duration within the context of core yields drifting up on less accommodative central bank expectations, expected policy normalization volatility and potentially significant divergence among central banks.

Figure 1
Inflation measures (United States)



Figure 2
Inflation measures (Europe)



II. Portfolio objectives

A. Portfolio tranches

5. As indicated in the Investment Policy Statement (IPS), the IFAD investment portfolio is split into tranches reflecting their respective objectives, as follows:³
 - **Transaction tranche.** Facilitates near-term payments for IFAD’s operations or administrative expenditures, to guarantee that sufficient cash and cash equivalents are available to meet immediate payment obligations.
 - **Liquidity tranche.** Replenishes the transaction tranche when necessary and receives excess cash from the transaction tranche. It guarantees the availability of sufficient instruments that can easily be converted into cash. Together with the transaction tranche, it ensures that expected and unforeseen short-term liquidity requirements are met.
 - **Investment tranche.** Allows IFAD to optimize prudently the total expected returns on its investments. This tranche is comprised of funds not needed in the short term and assumed to be disbursed over the medium term. The tranche is made up of two subportfolios: the investment tranche in euros and the investment tranche in United States dollars.
6. The net asset value of the portfolio by asset allocation in the above tranches is presented in the table below.

Table 1
Liquidity portfolio's tranches as at 31 December 2021

Tranche	%	US\$ millions
Transaction	5.7	80.4
Liquidity	28.1	394.6
Investment	66.2	929.7
in EUR	36.0	505.3
in US\$	30.2	424.4
Total	100.0	1 404.7

B. Environmental, social and governance principles

7. As a responsible investor, IFAD’s main objective is to invest in securities where the issuer, at a minimum, adheres to fundamental principles of human rights, labour, environment and anticorruption. Accordingly, IFAD adheres to the Ten Principles of the United Nations Global Compact (UNGC), meaning that investments must

³ AC 2020/159/R.7.

comply with the UNGC principles to be considered eligible.

8. As stated in the revised IPS,⁴ investments are screened by IFAD in accordance with the UNGC principles to exclude the following types of securities:
 - (a) Securities issued by entities involved in unethical products or services, including outlawed and controversial weapons, arms, coal extraction, coal-fired power generation, tobacco, alcohol and gambling; and
 - (b) Securities included in the United Nations Security Council Consolidated List of sanctioned countries.⁵
9. Subject to availability of market issuance and the risk tolerance levels prescribed in the IPS, IFAD endeavours to invest in green bonds and other thematic environmental, social and governance securities, including: supnationals, sovereign and government agency bonds, corporate bonds and asset-backed securities in the impact bond market.
10. Throughout 2021, IFAD's investment portfolio was fully compliant with the aforementioned environmental, social and governance principles.

III. Portfolio allocation

11. During 2021, the value of the investment portfolio increased by US\$239.4 million, with net inflows to the transaction tranche being the largest contributor to the increase. This is mainly explained by the early encashment of core resources (contributions) against projections during the last quarter of the year.

Table 2

Drivers of IFAD's investment portfolio in 2021

(Thousands of United States dollars equivalent)

	<i>Transaction and liquidity tranches^a</i>	<i>Investment tranche in US\$^b</i>	<i>Investment tranche in EUR^c</i>	<i>Other^d</i>	<i>Total</i>
Opening balance (31 December 2020)	264 003	333 673	567 569	39	1 165 284
Net investment income	(806)	2 396	1 331	(3)	2 919
Net flows ^e	224 634	88 296	(18 459)	(396)	294 075
Foreign exchange movements	(13 841)	(2)	(44 139)	391	(57 591)
Closing balance (31 December 2021)	473 990	424 362	506 302	32	1 404 686

^a The transaction tranche comprises cash held mainly in commercial banks. The liquidity tranche comprises cash held in central banks and the Bank for International Settlements. The combined tranches represent the former operational cash portfolio.

^b Investment tranche in United States dollars replaces the former global liquidity portfolio.

^c Investment tranche in euros replaces the former asset and liability portfolio.

^d Residual cash positions of portfolios closed in 2019 and cash held in Chinese renminbi.

^e Net flows consisting of outflows in respect of disbursements of loans, grants and administrative expenses, and inflows from loan refloes and encashment of Member State contributions.

IV. Investment income

12. Gross investment income in 2021 amounted to positive US\$4.11 million, with net investment income inclusive of investment, custody and advisory fees as well as bank charges, totalling positive US\$2.92 million. Table 3 presents a summary of 2021 investment income broken down by portfolio.

⁴ EB 2021/134/R.52.

⁵ <https://www.un.org/securitycouncil/content/un-sc-consolidated-list>.

Table 3

Breakdown of IFAD's investment income by portfolio in 2021

(Thousands of United States dollars equivalent)

	<i>Transaction and liquidity tranches</i>	<i>Investment tranche in US\$</i>	<i>Investment tranche in EUR</i>	<i>Other</i>	<i>Total</i>
Interest and coupon income	(652.5)	5 888.0	2 353.1	6.2	7 594.9
Derivatives expenses	-	(1 727.2)	(756.3)	-	(2 483.5)
Realized market gains/(losses)	1.3	35.2	96.9	-	133.4
Unrealized market gains/(losses)	-	(1 360.8)	222.6	-	(1 138.2)
Investment income before fees	(651.2)	2 835.2	1 916.4	6.2	4 106.7
Investment manager fees	-	-	-	-	-
Custody fees	(3.0)	(61.6)	(69.2)	(8.8)	(142.6)
Bank charges	(151.5)	-	(0.9)	-	(152.5)
Advisory and other investment-related fees	-	(377.9)	(515.0)	-	(892.9)
Investment income after fees	(805.8)	2 395.7	1 331.4	(2.6)	2 918.8

V. Rate of return

13. As reported by the custodian, Northern Trust, IFAD's investment portfolio generated a gross positive return of 0.28 per cent in 2021, with the investment tranche in United States dollars generating a gross positive return of 0.71 per cent, which outperformed the benchmark (ICE Bank of America [BofA] 0-1 Year United States Treasury Index) by 0.61 per cent. Moreover, the investment tranche in euros generated a gross positive return of 0.20 per cent during the same period, with an excess return of 0.68 per cent against its benchmark (ICE BofA 0-1 Year AAA-AA Euro Government Index). The net rate of return for the entire investment portfolio was 0.16 per cent.⁶

Table 4

Quarterly performance for 2021

(Percentages in local currency terms)

	<i>Quarterly performance in 2021 (year to date [YTD])</i>				<i>Excess return as at 31/12/2021 (YTD)</i>
	<i>First quarter</i>	<i>Second quarter</i>	<i>Third quarter</i>	<i>Fourth quarter</i>	
Gross rate of return					
Transaction and liquidity tranches	0.00	0.00	(0.05)	(0.13)	n.a. ⁷
Investment tranche in US\$	0.50	0.47	0.62	0.71	0.65
Investment tranche in EUR	(0.10)	0.06	0.23	0.20	0.84
Gross rate of return	0.08	0.16	0.28	0.28	n.a.
Net rate of return	0.00	0.07	0.17	0.16	n.a.

Table 5

IFAD portfolio net performance rolling average as of 31 December 2021

(Percentages in local currency terms)

	<i>YTD</i>	<i>One year</i>	<i>Three years</i>	<i>Five years</i>
Portfolio performance	0.16	0.16	0.95	1.02

14. For comparative purposes, table 6 presents annual performance during the previous four years.

⁶ To calculate the rate of return on the investment portfolio as a whole and each of its tranches, Northern Trust applies the modified Dietz methodology, which follows market best practices. The methodology is based on a weighted calculation of cash flows and is computed in local currency.

⁷ Whereas the transaction tranche does not have a benchmark, the liquidity tranche is benchmarked as follows: for United States dollar-denominated holdings in the liquidity tranche, the benchmark is ICE BofA 0-1 Year United States Treasury Index. For euro-denominated holdings in the liquidity tranche, the benchmark is ICE BofA 0-1 Year AAA-AA Euro Government Index. The Treasury Services Division will implement the split between the transaction and liquidity tranches when the front office platform and Treasury Management System are upgraded (foreseen for 2022/2023).

Table 6
Historical net annual performances versus benchmarks⁸
(Percentages in local currency terms)

	2021		2020		2019		2018	
	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark
Transaction and liquidity tranches	(0.13)	n.a	0.10	0.10	1.31	1.31	0.88	0.88
Investment tranche in US\$	0.71	0.10	1.14	1.12	2.73	1.11	2.16	0.00
Investment tranche in EUR	0.20	(0.48)	0.13	0.16	1.22	0.17	(0.91)	0.21
Global strategic portfolio	n.a	n.a	n.a	n.a	1.93	0.62	2.22	1.02
Global government bonds	n.a	n.a	n.a	n.a	n.a.	n.a.	0.89	1.88
Global credit portfolio	-	-	n.a	n.a	3.65	4.72	0.00	0.90
Global inflation-indexed bonds	n.a	n.a	n.a	n.a	n.a.	n.a.	0.16	0.39
Emerging market debt bonds	n.a	n.a	n.a	n.a	n.a.	n.a.	(3.07)	(2.55)
Gross rate of return (excluding fees)	0.28	n.a	0.67	n.a	2.22	n.a.	0.21	n.a.
Net rate of return (including all fees)	0.16	n.a	0.55	n.a	2.13	n.a.	0.09	n.a.

VI. Composition of the portfolio by instrument

15. Table 7 shows the composition of the investment portfolio by investment instrument – following Standard & Poor’s asset classification – as at 31 December 2021.

Table 7
Investment portfolio by instrument as at 31 December 2021

	Actual portfolio allocation	
	Millions of US\$	Actual portfolio allocation (%)
Sovereigns/supranationals/agencies	589.0	41.9
Cash	475.3	33.8
Financial institutions	254.2	18.1
Corporates	75.1	5.4
Local governments and sovereign-sponsored securitizations	6.2	0.4
Derivatives	5.1	0.4
Total	1 404.7	100

VII. Risk measurements

16. The risk budgeting measures outlined in the IPS – duration and conditional value at risk (CVaR) – are reported on in subsections A and B below. The credit risk and currency risk analyses are reported in subsections C and D, respectively.

A. Market risk: duration

17. Duration is a measure of the sensitivity of the market price of a fixed-income investment to a change in interest rates (expressed as a number of years). As at 31 December 2021, the overall portfolio duration was 0.20 years, lower than the 0.60 years reported for 2020.

⁸ The table shows old portfolios that were part of IFAD’s investment portfolio until 2019.

Table 8
Effective durations of IFAD's investment portfolio and benchmarks
(Years)

	31 December 2021		31 December 2020	
	Portfolio	Benchmark	Portfolio	Benchmark
Investment tranche in EUR	0.32	0.45	1.00	0.50
Investment tranche in US\$	0.28	0.46	0.40	0.40
Total portfolio (including operational cash)	0.20	n.a	0.60	0.50

Note: The total portfolio duration is lowered by the operational cash portfolio, which is not subject to interest rate fluctuations. The duration of the benchmark for 2021 is not shown since the transaction tranche does not have a benchmark.

B. Market risk: conditional value at risk

18. The CVaR is a measure of the possible percentage losses to a portfolio under extreme market conditions. The investment portfolio CVaR is measured for one-year at 95 per cent confidence level.
19. The maximum risk level for the IFAD portfolio is stated in the IPS as a CVaR of 3.0 per cent. In December 2021, the CVaR for the overall portfolio was at 0.30 per cent, in compliance with the IPS risk level and lower than the 1.06 per cent shown at December 2020.

Table 9
CVaR of IFAD's tranches
(95 per cent confidence level; percentages based on one-year historical simulations)

	Actual investment portfolio one-year CVaR (in %)	
	31 December 2021	31 December 2020
Investment tranche in EUR	0.16	1.66
Investment tranche in US\$	0.22	1.31
Total portfolio (including cash) *	0.30	1.06

* Portfolio CVaR is lowered by the operational cash component of the portfolio, which has a CVaR equal to zero. The CVaR for IFAD's liquidity portfolio as a whole also includes the correlations of all securities in the tranches.

C. Credit risk: credit rating analysis

20. IFAD's IPS establishes specific requirements for the placement of IFAD funds and provides guidelines for investment selection to be made in compliance with those requirements. As part of the credit risk guidelines, the IPS defines the rating floor for the invested assets, which is applied through the so-called "second-best rating" approach. By doing so, the rating that is compared to the rating floor is the second-best rating assigned by Standard & Poor's, Moody's and Fitch.
21. The latest IPS calls for the rating floor for fixed-income securities to be at least A- (except for asset-backed securities, which should be AAA).⁹ As shown in table 10a, and in compliance with the IPS guidelines, the fixed-income investments were allocated in high investment-grade instruments, i.e. AAA, AA+/- and A+/- securities, at the end of 2021.

⁹ The rating that is compared to the rating floor is the second-best rating of three agencies: Standard & Poor's, Moody's or Fitch.

Table 10a

Investment portfolio composition by credit rating as of 31 December 2021

(In percentages, including cash and swaps)

	<i>Transaction and liquidity tranches</i>	<i>Investment tranche in US\$</i>	<i>Investment tranche in EUR</i>	<i>Total</i>
AAA	0.0	8.6	0.8	9.5
AA+	0.0	3.6	0.0	3.6
AA	15.5	7.6	6.1	29.1
AA-	0.3	10.1	9.5	19.9
A+	2.6	0.3	11.7	14.6
A	0.0	0.0	3.2	3.2
A-	0.0	0.0	4.6	4.6
Cash	15.4	0.0	0.0	15.4
Total	33.8	30.2	36.0	100.0

22. The IPS also requires that the share of fixed-income investments (i.e. excluding cash and swaps) in rating category AA- and above should be at least 60 per cent of the total portfolio. As at 31 December 2021, this share was 73.5 per cent, as shown in table 10b.

Table 10b

Investment portfolio composition by credit rating as at 31 December 2021

(In percentages, excluding cash and swaps)

	<i>Transaction and liquidity tranches</i>	<i>Investment tranche in US\$</i>	<i>Investment tranche in EUR</i>	<i>Cumulative total</i>
AAA	0.0	10.2	1.0	11.2
AA+	0.0	4.3	0.0	15.4
AA	18.3	8.9	7.2	49.9
AA-	0.4	12.0	11.2	73.5
A+	3.1	0.3	13.9	90.7
A	0.0	0.0	3.8	94.6
A-	0.0	0.0	5.4	100.0
Total	21.8	35.7	42.5	100.0

D. Currency risk: currency composition analysis

23. As per IFAD's interim currency alignment methodology, and in order to protect the short-term liquidity profile from currency fluctuations, IFAD ensures that the currency composition of projected inflows matches that of outflows over a 24-month horizon. Negative mismatches (deficits of liquidity) of any currency above 10 per cent of total outflows would require ad hoc hedging positions to help reduce foreign exchange exposure below the 10 per cent threshold.
24. Projections as of end-2021 show that the Fund's currency composition is adequate to cover the 24-month projected currency outflows.

Table 11

Currency composition of next 24-month projected cash flows as at 31 December 2021
(Thousands of United States dollars equivalent)

Category	CNY Group	EUR Group	GBP Group	JPY Group	USD Group	Grand total
Inflows						
Cash	144	254 724	4 672	32	215 119	474 691
Investments	26	506 300	4	-	424 374	930 705
Contributions	71 007	372 584	2 758	84 821	327 558	858 729
Projected reflows	75 023	260 293	53 590	49 373	293 747	732 026
Debt drawdowns	-	-	-	-	817 573	817 573
Assets total	146 200	1 393 901	61 025	134 226	2 078 372	3 813 725
Outflows						
Projected disbursements	(64 619)	(707 926)	(46 158)	(42 526)	(1 060 293)	(1 921 522)
Projected operating expenses	-	(194 763)	-	-	(135 344)	(330 107)
Debt repayments and interests	-	(84 681)	-	-	(9 939)	(94 620)
Commitments total	(64 619)	(987 370)	(46 158)	(42 526)	(1 205 576)	(2 346 250)
Current hedging						
Currency forwards	-	-	-	-	-	-
Hedging total	-	-	-	-	-	-
Deficit						
Deficit as % of commitments	0.00	0.00	0.00	0.00	0.00	0.00

E. Liquidity risk: minimum liquidity requirement

25. The minimum liquidity requirement (MLR) under the methodology for the Eleventh Replenishment of IFAD's Resources (IFAD11) was US\$639 million as at 31 December 2021.
26. The latest Liquidity Policy forms the basis for computing the resources available for commitment for IFAD12.¹⁰ The new methodology for MLR as of IFAD12 is a key policy anchor that indicates the level of liquidity IFAD must hold at any time to serve the next 12 months' disbursements of loans and grants and scheduled repayments of debt, in order to ensure continuity of development operations. In addition to the revamped MLR, the new Liquidity Policy includes the target liquidity level (TLL), defined as a variable metric within a range of 80 to 100 per cent of stressed net cash flows over 24 months. As indicated in the policy, building up the TLL will require a gradual approach supported by active liquidity planning. Management will implement a robust framework to ensure alignment with the TLL over the medium term (two to five years) while monitoring internal resources and aligning funding programmes with the projected and realized programme of loans and grants.
27. Already during IFAD11, the Treasury Services Division monitored the new metrics to ensure a smooth liquidity policy transition in 2022. As at 31 December 2021, IFAD's liquidity portfolio net asset value (NAV) of US\$1,405 million and the stressed NAV of US\$1,166 million (haircut at 16.59 per cent) were above the projected new MLR for IFAD12 of US\$1,004 million. IFAD also estimated the low-range TLL at US\$1,257 million.

VIII. External investment managers

28. External investment managers are formally appointed through an investment management agreement entered into with IFAD. The agreements outline in detail the responsibilities of the managers.
29. IFAD must ensure that appointed investment managers fulfil their mandates within the contractual obligations outlined in the relevant investment management agreement, including the investment guidelines incorporated in each agreement.

¹⁰ AC 2020/159/R.5.

30. Although this report is primarily intended to report on IFAD’s investment portfolio managed internally, it now incorporates a dedicated section for external investment managers in other business units with the aim of updating the Executive Board on the performance and risk level for the IFAD After-Service Medical Coverage Scheme (ASMCS) Trust Fund and the World Bank Reserve Advisory and Management Partnership (RAMP) investment portfolios.
31. The IFAD ASMCS Trust Fund is managed externally by Payden & Rygel, which liaises with Northern Trust and IFAD for compliance, performance and risk-reporting purposes. As at 31 December 2021, the market value of the IFAD ASMCS Trust Fund portfolio stood at US\$94.2 million, with a minus 5.73 per cent gross rate of return for 2021 (versus minus 1.51 per cent for its benchmark) during the third quarter and minus 3.92 per cent (versus minus 5.55 per cent for its customized benchmark) for the year to date.¹¹ The historical value at risk at a 95 per cent confidence level stood at 1.02 per cent, and effective duration at 3.47 years as at 31 December 2021, as reported by Northern Trust.

Table 12

Historical gross annual performances versus benchmarks

(Percentages in local currency terms)

	2021		Trailing three years		Trailing five years	
	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark
IFAD ASMCS Trust Fund	(5.73)	(5.55)	2.04	1.72	2.69	2.42

32. As at 31 December 2021, 75.5 per cent of the portfolio was allocated in credit bonds as shown in the table below.

Table 13

ASMCS portfolio by instrument as at 31 December 2021

	Actual portfolio allocation	
	Millions of US\$	Actual portfolio allocation (%)
Credit	71.1	75.5
Government	16.1	17.1
Money markets	2.2	2.3
Cash	1.7	1.8
Quasi-sovereign	1.3	1.4
Agencies	1.2	1.3
Emerging markets	0.5	0.6
Total	94.2	100.0

33. Finally, the World Bank RAMP investment portfolio stood at US\$164 million as at 31 December 2021. As reported by the World Bank, the portfolio generated 0.18 per cent of gross return in 2021, outperforming its benchmark (ICE BofA 0-1 Year United States Treasury Index) by 12 basis points.
34. The historical value at risk at 95 per cent confidence level stood at 0.19 per cent and effective duration at 0.45 years as at 31 December 2021 as reported by Northern Trust.
35. Tables 14 and 15 show the asset allocation and risk contribution of the RAMP investment portfolio.

¹¹ An IFAD customized benchmark known as the ASMCS Global Agg Custom Index.

Table 14
World Bank RAMP investment portfolio by instrument as at 31 December 2021

	<i>Millions of US\$</i>	<i>Actual portfolio allocation (%)</i>
Sovereign government	64.1	39.1
Agency	50.3	30.7
Covered bonds	20.5	12.5
Sovereign guaranteed	16.6	10.1
Supra/multilaterals	11.5	7.0
Cash and cash equivalent	1.0	0.6
Total	164.0	100.0

Table 15
World Bank RAMP investment portfolio risk contribution as at 31 December 2021

	<i>Risk contribution</i>	
	<i>Portfolio duration (months)</i>	<i>Benchmark duration (months)</i>
US\$		
Interest rates	5.6	5.4
Spreads	2.8	-

Glossary

Basis points (bps). A common unit of measurement for interest rates and other percentages in finance. One basis point is equal to one hundredth of 1 per cent, or 0.01 per cent, or 0.0001. Bps are used to denote the percentage change in a financial instrument.

Confidence level. The probability that the institution will remain solvent. It is derived from the generally very low probability that losses will be larger than the available capital. A confidence level of 99.99 per cent means that there is a 0.01 per cent probability that losses will be higher than the available capital. The confidence level is linked to the risk appetite of the institution, and in particular to its target rating.

Conditional value at risk (CVaR). Also known as the expected shortfall, CVaR is a risk assessment measure that quantifies the amount of tail risk of an investment portfolio. CVaR is derived by taking a weighted average of the “extreme” losses in the tail of the distribution of possible returns, beyond the value at risk cut-off point.

Duration. A measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates.

Minimum liquidity requirement (MLR). The level of liquidity that IFAD must hold at any given time to serve at least the next 12 months’ disbursements of loans and grants and scheduled repayments of debt in order to ensure continuity of development operations.

Modified Dietz methodology. A methodology to compute the rate of return of an investment portfolio. It is based on a weighted calculation of cash flows that follows market best practices. This is the methodology used by the IFAD custodian (Northern Trust) to compute the rate of return of IFAD’s investment portfolio.

Target liquidity level (TLL). The TLL is defined within a range of 80 to 100 per cent of 24 months of future net cash flows. The cash flows are stressed under assumptions of reduced inflows such as the absence of new borrowing and delays in payment of contributions and loan reflows, or assumptions of increased outflows, such as the need to disburse beyond planned levels and to provide a small amount of countercyclical funding, when donors and borrowers do not have access to financing themselves.

Ten Principles of the United Nations Global Compact (UNGC). The Ten Principles are derived from: the Universal Declaration of Human Rights; the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work; the Rio Declaration on Environment and Development; and the United Nations Convention against Corruption.¹²

¹² <https://www.unglobalcompact.org/what-is-gc/mission/principles>.