
Report on IFAD's investment portfolio for the first semester of 2022

Document: EB 2022/136/R.38/Rev.1

Date: 13 September 2022

Distribution: Public

Original: English

FOR: INFORMATION

Action: The Executive Board is invited to take note of the report on IFAD's investment portfolio.

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Report on IFAD's investment portfolio for the first semester of 2022

Executive summary

1. During the first semester of 2022, the net rate of return¹ for IFAD's investment portfolio was negative 0.68 per cent with a net investment income of negative US\$12.179 million. The portfolio underperformed the benchmark, similarly to last year. The investment tranche in United States dollars underperformed the benchmark by 0.11 per cent (versus underperformance by 0.10 per cent last year) and the investment tranche in euros underperformed the benchmark by 0.96 per cent (versus underperformance by 0.28 per cent last year). The first half of 2022 was a turbulent period for markets across the board. Bond markets were particularly affected by exceptionally high volatility (the third highest on record since 1997), strong inflation numbers and weak economic data. Inflationary drivers, such as high commodity prices resulting from the war in Ukraine and pressure on the global supply chain as a result of resurging COVID-19 outbreaks, have persisted throughout the first half of 2022. Expectations on aggressive interest rate hikes in the United States materialized while the halt to the European Central Bank's asset purchase programme introduced a significant policy reversal, lifting expectations for key interest rate increases. During such a time of significant market distress and high volatility, markets have generally underperformed, with fixed-income assets being no exception. The sharp and erratic widening of credit spreads for supranational and sovereign agency bonds and persisting elevated levels thereof have led to the underperformance seen in IFAD's portfolios, given its predominant investment in these assets.
2. The value of the investment portfolio in United States dollar terms increased by US\$444 million, from US\$1.405 billion as at 31 December 2021 to US\$1.849 billion as at 30 June 2022. The main factor underlying this increase was net inflows of US\$473.2 million. This was mildly offset by the negative net investment income of US\$12.2 million and the outflows from foreign exchange movements.
3. On risk metrics, the portfolio's conditional value at risk (CVaR) increased from 0.30 to 0.55 per cent in the first half of 2022.² 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 30 June 2022 are shown below:
 - The portfolio duration level decreased from 0.20 years to 0.12 years; and
 - The fixed-income investments were fully allocated in high investment-grade instruments rated at A- and above (share of AA- and above is 84.4 per cent).

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 IPS 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. 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 widely established risk metrics tool.

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 first half (H1) of 2022

	<i>H1 2022</i>	<i>Q4 2021</i>
Portfolio size (thousands of US\$)	1 848 828	1 404 686
Net investment income (thousands of US\$)	(12 179)	2 919
Net rate of return (%)	(0.68)	0.16
Duration	0.12	0.20
CVaR historical 1-year (%)	0.56	0.30

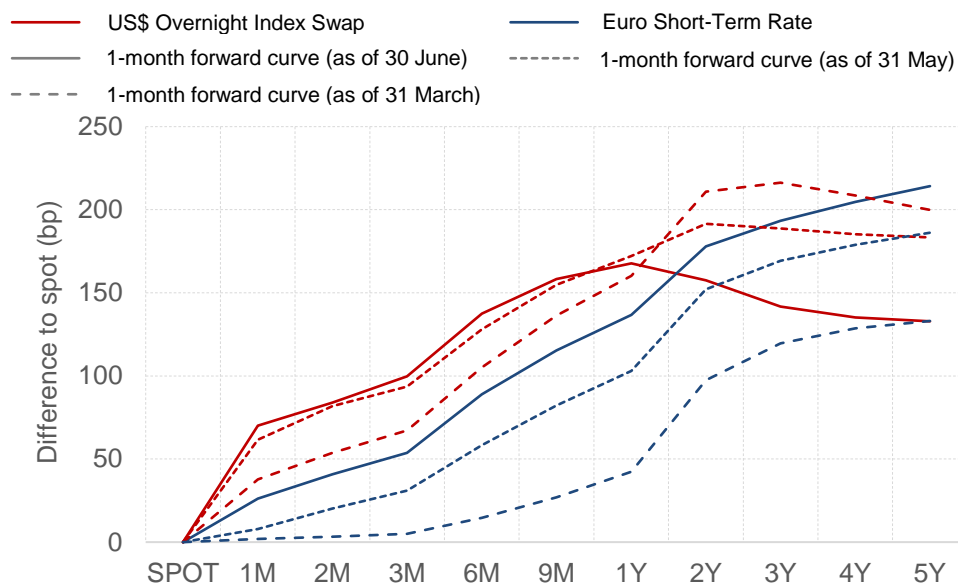
I. Market conditions

1. Inflation and slowing economic momentum continued to be the dominant themes during the second quarter of the year. Figures for the Consumer Price Index (CPI) and the Harmonised Index of Consumer Prices (HICP) printed north of 8 per cent for both Germany³ and the United States⁴ respectively, reaching yet again a 40-year record high. Inflation remains primarily driven by high commodity prices amid continuing uncertainty surrounding the war in Ukraine. Moreover, recurring COVID-19 outbreaks in China have added pressure to the global supply chain recovery. Oil prices oscillated around the US\$110/barrel mark after the European Union published plans to cut oil imports from the Russian Federation by 90 per cent by year-end and news of the intended gradual restoration of supply by the Organization of the Petroleum Exporting Countries (OPEC) Plus.
2. Global economic data surprised on the downside in the United States and the eurozone, adding to fears of a recession. Federal Reserve Bank of Atlanta's first half GDP estimate was revised downwards to negative territory (minus 1 per cent), while the ISM New Orders Index dropped below 50 pointing to weak economic activity. Labour market indicators remained resilient and offered relief amid mostly pessimistic data releases. In the eurozone, sustained consumer uncertainty alongside price pressures and challenges in supply chains continued to weigh on the economic outlook. Purchasing managers' composite index fell to the lowest since February 2021, mid-pandemic, just above the expansionary threshold of 50, while the Leibniz Centre for European Economic Research (ZEW) economic growth index printed at the lowest point since 2011.
3. The United States Federal Reserve System (FED) raised the policy rate by 75 basis points (bps) in June, against expectations of 25 bps, to a range between 1.5 and 1.75 per cent. Federal Open Market Committee members indicated that further equally high interest rate hikes may follow. Meanwhile, the European Central Bank (ECB) halted its asset purchase programme as of end June, paving the way for the first rate hikes since 2011. These are expected to amount to a cumulative 75 bps by September while a newly announced anti-fragmentation tool would tackle undue distortions in non-core government bond yields. Elsewhere, many developed and emerging market central banks followed suit and raised their key interest rates.
4. In response to those developments, United States Treasury yields and EGB yields shifted yield curves upwards, pricing in more hawkish central bank action. Non-core EGB yields underperformed its core peers, with Italian Treasury Bonds (BTPs) reaching highest yield levels since 2014. Credit spreads for supranational and agency bonds widened in line with the broader risk-off market sentiment, following yield increases earlier in the quarter.
5. The persistently high levels in yields and erratic widening of credit spreads for supranational and agency bonds were the main contributor to IFAD portfolios' underperformance. Consequently, IFAD continues to manage the liquidity portfolios mainly protective of duration with a view to maintaining the portfolio's resilience throughout central banks' policy normalizations and potentially challenging developments in the global economy. IFAD remains cautious of downside risks relating to economic recession and a potential central bank policy reversal.

³ Germany: HICP for April, May and June was at 7.8 per cent, 8.7 per cent and 8.2 per cent respectively.

⁴ United States: CPI for April, May and June was at 8.3 per cent, 8.6 per cent and 9.1 per cent respectively.

Figure 1
FED and ECB pricing



Source: Bloomberg, HSBC.

Figure 2
Evolution of option-adjusted spread for United States dollars and euros supranational and government agency bonds



Source: Bloomberg, ICE Bond Indices

II. Portfolio objectives

A. Portfolio tranches

6. As indicated in the Investment Policy Statement (IPS), the IFAD investment portfolio is split into tranches reflecting their respective objectives, as follows:⁵

- **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.

⁵ AC 2020/159/R.7.

- **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.
7. The net asset value of the portfolio by asset allocation in the above tranches is presented in table 1.

Table 1
Liquidity portfolio's tranches as at 30 June 2022

<i>Tranche</i>	<i>%</i>	<i>US\$ millions</i>
Transaction	2.9	53.7
Liquidity	22.0	406.3
Investment	75.1	1 388.7
in EUR	25.1	464.2
in US\$	50.0	924.6
Total	100.0	1 848.8

B. Environmental, social and governance principles

8. 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 comply with the UNGC principles to be considered eligible.
9. Consistent with the revised IPS,⁶ the implementation of exclusionary criteria to be applied to investments is under way in accordance with the UNGC principles to exclude securities issued by entities involved in, but not limited to, unethical products or services, including outlawed weapons, arms, coal extraction, coal-fired power generation, tobacco, alcohol and gambling.
10. 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: supranational, sovereign and government agency bonds, corporate bonds and asset-backed securities in the impact bond market.
11. Throughout the first half of 2022, all new securities acquired for IFAD's investment portfolio were fully compliant with the aforementioned environmental, social and governance principles.

III. Portfolio allocation

12. During the first half of 2022, the value of the investment portfolio increased by US\$444.1 million, with net inflows to the investment tranche in United States dollars being the largest contributor to the increase. This is mainly explained by the encashment of core resources (contributions) and the issuance of two private placements during the first semester of the year.

⁶ EB 2021/134/R.52.

Table 2

Drivers of IFAD's investment portfolio in the first semester of 2022

(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 2021)	473 990	424 362	506 302	32	1 404 686
Net investment income	(730)	(3 815)	(7 631)	(3)	(12 179)
Net flows ^e	(13 436)	504 015	(17 402)	1	473 178
Foreign exchange movements	(5 139)	-	(11 717)	-	(16 856)
Closing balance (30 June 2022)	454 685	924 562	469 552	30	1 848 828

^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, repayment of borrowing and administrative expenses, and inflows from loan reflows, borrowing and encashment of Member State contributions.

IV. Investment income

13. Gross investment income in the first half of 2022 amounted to negative US\$11.25 million, with net investment income inclusive of investment, custody and advisory fees as well as bank charges, totalling negative US\$12.18 million. Table 3 presents a summary of the first half of 2022's investment income broken down by portfolio.

Table 3

Breakdown of IFAD's investment income by portfolio in the first semester of 2022

(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	(647.0)	4 146.1	150.5	-	3 649.6
Realized market gains/(losses)	-	(36.0)	20.0	-	(16.0)
Unrealized market gains/(losses)	-	(7 386.3)	(7 497.0)	-	(14 883.3)
Investment income before fees	(647.0)	(3 276.2)	(7 326.4)	-	(11 249.6)
Investment manager fees	-	-	-	-	-
Custody fees	(1.0)	(22.2)	(21.1)	(2.9)	(47.2)
Bank charges	(82.4)	-	(0.4)	-	(82.8)
Advisory and other investment-related fees	-	(516.7)	(283.2)	-	(799.9)
Investment income after fees	(730.4)	(3 815.1)	(7 631.1)	(2.9)	(12 179.5)

V. Rate of return

14. As reported by the custodian, Northern Trust, IFAD's investment portfolio generated a gross negative return of 0.63 per cent in the first half of 2022, with the investment tranche in United States dollars generating a gross negative return of 0.44 per cent, which underperformed the benchmark (ICE Bank of America [BofA] 0-1 Year United States Treasury Index) by 0.11 per cent. The investment tranche in euros generated a gross negative return of 1.51 per cent during the same period, with an excess return of negative 0.96 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 negative 0.68 per cent.⁷

⁷ 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.

Table 4
Quarterly performance for 2021 and first two quarters of 2022
(Percentages in local currency terms)

	Quarterly performance in 2021 (year to date [YTD])				Quarterly performance in 2022 YTD		
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Excess return as at 30/06/2022 YTD
Gross rate of return							
Transaction and liquidity tranches	0.00	0.00	(0.05)	(0.13)	(0.06)	(0.08)	n.a.*
Investment tranche in US\$	0.50	0.47	0.62	0.71	(0.32)	(0.44)	(0.11)
Investment tranche in EUR	(0.10)	0.06	0.23	0.20	(0.50)	(1.51)	(0.96)
Gross rate of return	0.08	0.16	0.28	0.28	(0.29)	(0.63)	n.a.
Net rate of return	0.00	0.07	0.17	0.16	(0.31)	(0.68)	n.a.

* 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 5
IFAD portfolio net performance rolling average as of 30 June 2022
(Percentages in local currency terms)

	YTD	One year	Three years	Five years
Portfolio performance	(0.68)	(0.60)	0.21	0.63

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

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

	2022		2021		2020		2019		2018	
	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark
Transaction and liquidity tranches	(0.10)	n.a.	(0.30)	n.a.	0.10	0.10	1.31	1.31	0.88	0.88
Investment tranche in US\$	(0.50)	(0.33)	0.59	0.06	1.14	1.12	2.73	1.11	2.16	0.00
Investment tranche in EUR	(1.58)	(0.55)	0.09	(0.63)	0.13	0.16	1.22	0.17	(0.91)	0.21
Global strategic portfolio	n.a.	n.a.	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.	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.	n.a.	n.a.	0.16	0.39
Emerging market debt bonds	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	(3.07)	(2.55)
Gross rate of return (excluding fees)	(0.63)	n.a.	0.28	n.a.	0.67	n.a.	2.22	n.a.	0.21	n.a.
Net rate of return (including all fees)	(0.68)	n.a.	0.16	n.a.	0.55	n.a.	2.13	n.a.	0.09	n.a.

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

VI. Composition of the portfolio by instrument

16. Table 7 shows the composition of the investment portfolio by investment instrument – following Standard & Poor's asset classification – as at 30 June 2022.

Table 7
Investment portfolio by instrument as at 30 June 2022

	Actual portfolio allocation	
	Millions of US\$	Actual portfolio allocation (%)
Sovereigns/supranationals/agencies	902.9	48.8
Cash	460.9	24.9
Financial institutions	343.1	18.6
Corporates	53.7	2.9
Local governments and sovereign-sponsored securitizations	40.6	2.2
Derivatives	47.9	2.6
Total	1 848.8	100

VII. Risk measurements

17. 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

18. 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 30 June 2022, the overall portfolio duration was 0.12 years, lower than the 0.20 years reported for the last quarter of 2021.

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

	30 June 2022		31 December 2021	
	Portfolio	Benchmark	Portfolio	Benchmark
Investment tranche in EUR	0.47	0.51	0.32	0.45
Investment tranche in US\$	0.25	0.45	0.28	0.46
Total portfolio (including operational cash)	0.12	n.a	0.20	n.a

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 the overall portfolio is not shown since the transaction tranche does not have a benchmark.

B. Market risk: conditional value at risk

19. 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.
20. The maximum risk level for the IFAD portfolio is stated in the IPS as a CVaR of 3.0 per cent. In June 2022, the CVaR for the overall portfolio was at 0.55 per cent, in compliance with the IPS risk level and higher than the 0.30 per cent shown in December 2021.

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 %)	
	30 June 2022	31 December 2021
Investment tranche in EUR	0.40	0.16
Investment tranche in US\$	0.31	0.22
Total portfolio (including cash) *	0.55	0.30

* 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

21. 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.
22. 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). As shown in table 10a, and in compliance with the IPS guidelines, all fixed-income investments were allocated in high investment-grade instruments, i.e. AAA, AA+/- and A+/- securities, at the end of June 2022.

Table 10a

Investment portfolio composition by credit rating as of 30 June 2022

(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	17.0	1.3	18.4
AA+	0.0	3.4	0.9	4.3
AA	0.0	14.2	4.3	18.5
AA-	0.0	9.7	10.4	20.1
A+	0.0	3.0	3.6	6.6
A	0.0	1.0	1.4	2.5
A-	0.0	0.0	2.3	2.3
Cash	24.6	0.0	0.3	24.9
Swaps	0.0	1.7	0.9	2.6
Total	24.6	50.0	25.4	100.0

23. 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 30 June 2022, this share was 84.4 per cent, as shown in table 10b.

Table 10b

Investment portfolio composition by credit rating as at 30 June 2022

(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	23.5	1.9	25.3
AA+	0.0	4.7	1.2	31.3
AA	0.0	19.5	5.9	56.7
AA-	0.0	13.3	14.3	84.4
A+	0.0	4.1	4.9	93.4
A	0.0	1.4	1.9	96.8
A-	0.0	0.0	3.2	100.0
Total	0.0	66.6	33.4	100.0

D. Currency risk: currency composition analysis

24. 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.
25. Projections as at 30 June 2022 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 30 June 2022

(Thousands of United States dollars equivalent)

<i>Category</i>	<i>CNY group</i>	<i>EUR group</i>	<i>GBP group</i>	<i>JPY group</i>	<i>US\$ group</i>	<i>Grand total</i>
Inflows						
Cash	142	189 508	6 431	37	260 086	456 202
Investments	23	468 671	3	-	924 572	1 393 270
Contributions	65 914	333 068	1 783	50 654	345 558	796 977
Projected reflows	66 151	234 656	46 986	40 110	309 079	696 982
Debt drawdowns	-	70 785	-	-	423 333	494 118
Assets total	132 230	1 296 688	55 203	90 801	2 262 628	3 837 550
Outflows						
Projected disbursements	(53 737)	(678 432)	(38 168)	(32 583)	(1 063 720)	(1 866 639)
Projected operating expenses	-	(202 447)	-	-	(140 684)	(343 131)
Debt repayments and interests	-	(81 948)	-	-	(39 327)	(121 275)
Commitments total	(53 737)	(962 827)	(38 168)	(32 583)	(1 243 731)	(2 331 045)
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

26. The Liquidity Policy indicates the level of liquidity, stressed by a haircut for less liquid assets, that IFAD must hold at any time to serve the next 12 months' disbursements of loans and grants and scheduled repayments of debt. In addition, it defines the target liquidity level (TLL), 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 liquidity to the TLL will require a gradual approach over several years through long-term active liquidity planning.
27. As at 30 June 2022, the minimum liquidity requirement (MLR) was US\$1,006 million.⁸
28. IFAD's liquidity portfolio net asset value (NAV) of US\$1,849 million and the stressed NAV of US\$1,524 million (liquidity haircut at 17.57 per cent) were above the projected MLR of US\$1,006 million (MLR ratio of 152 per cent). This is primarily due to the frontloading of borrowing activities that will fund IFAD's operational commitments over the course of IFAD12.

VIII. External investment managers

29. 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.
30. 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.
31. 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.

⁸ The MLR is currently updated semi-annually, with the latest update being on 1 January 2022.

32. The IFAD ASMCS Trust Fund is managed externally by Payden & Rygel, which liaises with IFAD's custodian, Northern Trust, and with IFAD for compliance, performance and risk-reporting purposes. As at 30 June 2022, the market value of the IFAD ASMCS Trust Fund portfolio stood at US\$84.6 million, with a negative 11.45 per cent gross rate of return for the first semester of 2022 (versus negative 11.54 per cent for its benchmark).⁹ The historical value at risk at a 95 per cent confidence level stood at 5.28 per cent, and effective duration at 10 years as at 30 June 2022, as reported by Payden & Rygel.

Table 12
Historical gross annual performances versus benchmarks
(Percentages in local currency terms)

	2022		Trailing three years		Trailing five years	
	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark
IFAD ASMCS Trust Fund	(11.45)	(11.54)	(3.08)	(3.27)	(1.01)	(1.18)

33. As at 30 June 2022, 69.7 per cent of the portfolio was allocated in credit bonds as shown in the table below.

Table 13
ASMCS portfolio by instrument as at 30 June 2022

	Actual portfolio allocation	
	Millions of US\$	Actual portfolio allocation (%)
Credit	59.0	69.7
Government	18.4	21.7
Money markets	2.6	3.0
Cash	2.3	2.7
Quasi-sovereign	1.0	1.2
Agencies	1.0	1.2
Covered bond	0.3	0.3
Emerging markets	0.2	0.2
Total	84.6	100.0

34. Finally, the World Bank RAMP investment portfolio stood at US\$164 million as at 30 June 2022. As reported by the World Bank, the portfolio generated negative 0.22 per cent of gross return in 2022, equalling its benchmark (ICE BofA 0-1 Year United States Treasury Index).

Table 14
Historical gross annual performances versus benchmarks

	2022		Rolling one year		Inception to date	
	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark
IFAD World Bank RAMP investment portfolio	(0.22)	(0.33)	(0.21)	(0.34)	1.28	1.16

35. The historical value at risk at 95 per cent confidence level stood at 0.35 per cent and effective duration at 0.52 years as at 30 June 2022 as reported by Northern Trust.
36. Tables 15 and 16 show the asset allocation and risk contribution of the RAMP investment portfolio.

⁹ An IFAD customized benchmark known as the ASMCS Global Agg Custom Index.

Table 15
World Bank RAMP investment portfolio by instrument as at 30 June 2022

	<i>Millions of US\$</i>	<i>Actual portfolio allocation (%)</i>
Sovereign government	107.4	65.5%
Agency	22.6	13.8%
Covered bonds	17.9	10.9%
Sovereign guaranteed	9.0	5.5%
Supra/multilaterals	4.4	2.7%
Cash and cash equivalent	2.5	1.5%
Total	164.0	100.0

Table 16
World Bank RAMP investment portfolio risk contribution as at 30 June 2022

	<i>Risk contribution</i>	
	<i>Portfolio duration (months)</i>	<i>Benchmark duration (months)</i>
US\$		
Interest rates	4.8	5.4
Spreads	1.1	-

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.

ESG. The environmental, social and governance standards ensure that responsible investing is factored into the choice of financial investments.

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.¹⁰

¹⁰ <https://www.unglobalcompact.org/what-is-gc/mission/principles>.