Investing in rural people

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Report on IFAD's investment portfolio for 2022

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

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Executive summary

1. In 2022, the net rate of return[1] for IFAD's investment portfolio was positive 0.28 per cent, with a net investment income of positive US$888,000. Overall, the portfolio continued to outperform the benchmark. The prudential tranche in United States dollars outperformed the benchmark by 0.12 per cent (versus 0.53 per cent in 2021). However, the prudential tranche in euros underperformed the benchmark by 0.13 per cent (versus outperformance by 0.72 per cent in 2021). The year 2022 was challenging for most economies and markets. The fixed-income segment in particular suffered heavy losses. Markets were subject to exceptionally high volatility, high inflation and weak economic data. The first half of 2022 was marked by high commodity prices stemming from the war in Ukraine and challenges to the global supply chain from continuing COVID-19 outbreaks. Inflationary fears emerged, and central banks shifted towards a tightening policy stance in reaction to inflation figures unseen for decades. Led by the Federal Reserve System, many other central banks, including the European Central Bank (ECB), aggressively hiked their key interest rates, resulting in a shift in market focus towards central bank rhetoric and economic data in the second half of 2022. Uncertainty about how policymakers would react to these challenges led to very high volatility levels and market distress.

2. Consequently, markets have generally underperformed, with fixed-income assets being no exception. Credit spreads substantially and persistently widened across all sectors, becoming the main source of underperformance of the portfolio, which is primarily invested in subsovereign, supranational and agency (SSA) bonds. The accompanying shift in bond yield curves towards markedly higher levels had little impact on the portfolio, given its low duration strategy. The euro depreciated significantly against the United States dollar, reaching parity for a continuous period throughout the year. Towards the end of 2022, risk sentiment in the United States improved slightly due to more positive economic data. However, mixed economic data from the euro area and a lagging ECB reaction function have led to the partial underperformance seen in IFAD's euro portfolio vis-à-vis the United States dollar portfolio at the end of 2022.

3. The value of the investment portfolio in United States dollar terms increased by US$40 million, from US$1.405 billion as at 31 December 2021 to US$1.445 billion as at 31 December 2022. The main factor underlying this increase was net inflows of US$69.0 million and, to a lesser extent, the positive net investment income. This was partly offset by the unrealized loss generated by negative foreign exchange movements of US$29.2 million.

4. On risk metrics, the portfolio's conditional value at risk (CVaR) increased from 0.30 to 0.82 per cent in 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 as at 31 December 2022 are shown below:

   - The portfolio duration level remained at 0.20 years; and
   - The fixed-income investments were fully allocated in high investment-grade instruments rated at A- and above (the share of AA- and above is 84.2 per cent).

5. Overall, the risk management of the investment portfolio showed no breaches of risk tolerance levels as defined in the IPS.

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[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. The figures provided in this report are retrieved from the Bloomberg PORT Solution, a widely established risk metrics tool.

Table 1
Key portfolio changes in 2022

	Q4 2022	*Q4 2021*
Portfolio size (thousands of US$)	1 445 452	1 404 686
Net investment income (thousands of US$)	888	2 919
Net rate of return (%)	0.28	0.16
Duration	0.20	0.20
CVaR historical 1-year (%)	0.82	0.30

6. IFAD's portfolio showed resilience throughout the central banks' policy normalizations and challenging market conditions, achieving a net portfolio performance of positive 0.28 per cent. Its policy of protecting duration resulted in overall yield increases having limited impact on the portfolio's performance. However, the persistent and erratic widening of credit spreads still posed a challenge for the portfolio, especially for the euro-denominated tranche. This contributed to the performance differential between the United States dollar and euro portfolio, with the United States dollar portfolio ending the year with a positive excess return of 0.12 per cent and the euro portfolio with a negative excess return of 0.13 per cent against their respective benchmarks. Going forward, IFAD remains cautious about the timing of central bank policy reversals and downside risks related to a potential economic recession.

Report on IFAD's investment portfolio for 2022

I. Market conditions

1. The broad increase in base inflation and normalization of central bank policies proved to be the main themes of 2022. Inflation and commodity prices skyrocketed as a result of the war in Ukraine, and recurring COVID-19 outbreaks in China added pressure on global supply chain recovery. United States headline inflation reached a 40-year high of 9.05 per cent in June, while eurozone headline inflation, at 10.6 per cent in November, was the highest in the history of the euro.

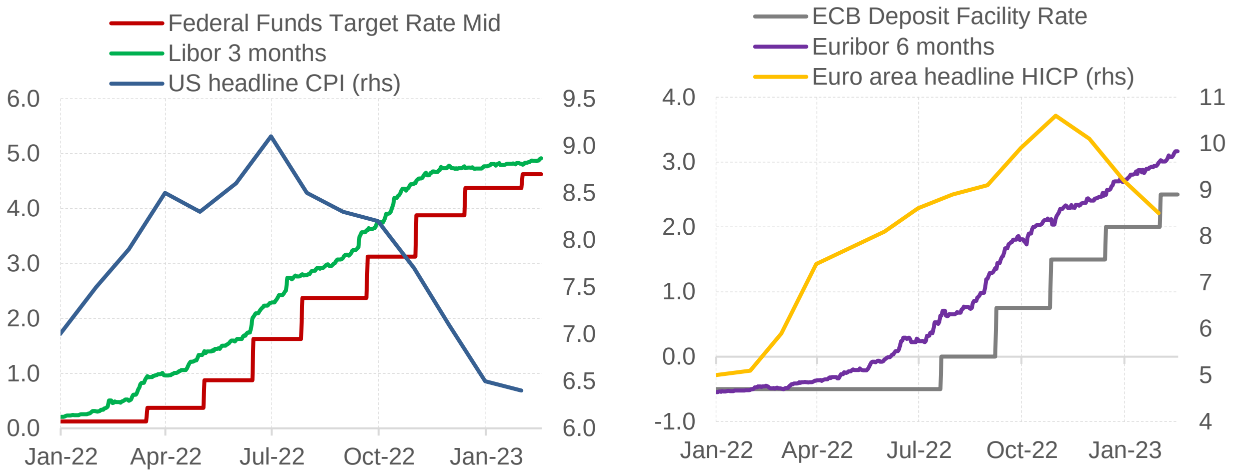
2. Most of the central banks joined the hawkish rhetoric throughout the year, with the United States Federal Reserve System (Fed) spearheading the global monetary policy normalization, which saw higher-than-expected key rate increases. The Fed raised the policy rate by 425 basis points (bps), on many occasions surprising markets to the upside. It prioritized inflation over growth and employment in its rhetoric, despite its dual mandate, aiming to keep interest rates in restrictive territory for some time. Mixed economic data, the fear of an economic recession and a lower pace of rate hikes by the Fed in the third quarter led investors to believe a reversal – or pivot – in the tightening policy was imminent. As economic growth remained sufficiently resilient, however, the tightening reversal did not materialize.

3. Meanwhile, the European Central Bank (ECB) echoed the Fed's hawkish tone, despite a lag in timing. In July it raised its key interest rates by 50 bps for the first time since 2011. Despite the downside risks to growth in the euro area, the ECB remained on a tightening course, with cumulative increases amounting to 250 bps. Elsewhere, many developed and emerging market central banks followed suit and raised their key interest rates. In response to these developments, the United States dollar strongly appreciated against major currencies. The EUR:US$ exchange rate was further hit by fears of recession in the euro area related to growing uncertainties about gas supplies from the Russian Federation. The exchange rate fell below parity in the third quarter and remained there until December amid fears that a rapid rise in the ECB's policy rates could destabilize non-core bond markets and further weaken the euro.

4. The hikes in key policy rates and accelerated inflation led to a sharp rise in United States Treasury and European Government bond yields, followed by a yield curve inversion, pricing in additional policy tightening. In the second half of the year, United States Treasury yields were torn between economic growth concerns and an expected Fed policy pivot, widely fluctuating as inflation figures and expectations of the Fed's decision unfolded and increasing between around 370 bps in the 2-year and 236 bps in the 10-year T-note. In the euro area, German Government bond yields rose to their highest level since 2011, with non-core government bond spreads widening.

5. Global credit spreads for supranational and agency bonds widened as a consequence of the broader risk-off market sentiment, persistent volatility and uncertainty about the central bank policy path. Throughout the year, credit spread levels remained elevated. United States dollar SSAs saw some improvement in performance following more positive economic data and bullish market sentiment towards the end of 2022. Conversely, euro-denominated SSAs sustained their credit spread, widening due to mixed economic data from the euro area and a lagging ECB reaction function.

Figure 1
Fed and ECB policy rate path and inflation figures



Source: Bloomberg

Figure 2
Evolution of option-adjusted spread against governments for US$ and EUR supranational and government agency bonds and bond market volatility

Source: Bloomberg, Intercontinental Exchange, Inc. (ICE) Bond Indices.
MOVE, or the Merrill Lynch Option Volatility Estimate, is an index that tracks the movement in United States Treasury yield volatility.

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:[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.

- **Operational 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

[3] AC 2020/159/R.7.

unforeseen short-term liquidity requirements are met.

- **Prudential 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 prudential tranche in euros and the prudential tranche in United States dollars.

7. 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 2022

Tranche	*%*	*US$ millions*
Transaction	6.4	92.4
Operational	22.2	321.4
Prudential	71.4	1 031.5
in EUR	31.8	459.5
in US$	39.6	572.0
Total	**100.0**	**1 445.4**

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[4], 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 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. In 2022, the value of the investment portfolio increased by US$40.7 million, with net inflows to the prudential tranche in United States dollars contributing most 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, partly offset by disbursements.

[4] EB 2021/134/R.52. As per the revised IFAD's Investment Policy Statement, the Liquidity tranche has been renamed as the Operational tranche, and the Investment tranche as the Prudential tranche, in order to clarify the purpose of each.

Table 2
Drivers of IFAD's investment portfolio in 2022
(Thousands of United States dollars equivalent)

	Transaction and operational tranches [a]	*Prudential tranche in US$* [b]	*Prudential tranche in EUR* [c]	*Other* [d]	*Total*
Opening balance (31 December 2021)	**473 990**	**424 362**	**506 302**	**32**	**1 404 686**
Net investment income	(896)	8 209	(6 416)	(8)	888
Net flows [e]	(57 703)	139 467	(12 709)	(22)	69 033
Foreign exchange movements	(1 480)	-	(27 675)	(1)	(29 156)
Closing balance (31 December 2022)	**413 911**	**572 038**	**459 503**	**0**	**1 445 452**

[a] The transaction tranche comprises cash held mainly in commercial banks. The operational tranche comprises cash held in central banks and the Bank for International Settlements. The combined tranches represent the former operational cash portfolio.
[b] Prudential tranche in United States dollars replaces the former global liquidity portfolio.
[c] Prudential 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 positive US$3.91 million, with net investment income inclusive of investment, custody and advisory fees, as well as bank charges, totalling positive US$0.89 million. Table 3 presents a summary of the 2022 investment income broken down by portfolio, where higher interest rates have led to higher interest income.

Table 3
Breakdown of IFAD's investment income by portfolio in 2022
(Thousands of United States dollars equivalent)

	Transaction and operational tranches	*Prudential tranche in US$*	*Prudential tranche in EUR*	*Other*	*Total*
Interest and coupon income[5]	(721.3)	16 058.8	1 483.7	-	16 821.3
Realized market gains/(losses)	-	(489.0)	(1 189.0)	-	(1 678.0)
Unrealized market gains/(losses)	-	(5 545.4)	(5 692.3)	-	(11 237.7)
Investment income before fees	**(721.3)**	**10 024.3**	**(5 397.5)**	**-**	**3 905.5**
Investment manager fees	-	-	-	-	-
Custody fees	(2.7)	(67.5)	(58.1)	(8.0)	(136.4)
Bank charges	(171.9)	-	(0.5)	-	(172.5)
Advisory and other investment-related fees	-	(1 748.2)	(960.3)	-	(2 708.5)
Investment income after fees	**(896.0)**	**8 208.6**	**(6 416.4)**	**(8.0)**	**888.2**

V. Rate of return

14. As reported by the custodian, Northern Trust, IFAD's investment portfolio generated a gross positive return of 0.45 per cent in 2022, with the prudential tranche in United States dollars generating a gross positive return of 1.00 per cent, which outperformed the benchmark (ICE Bank of America [BofA] 0-1 Year United States Treasury Index) by 0.32 per cent. The prudential tranche in euros generated a gross negative return of 0.95 per cent during the same period, with an excess return of 0.06 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 0.28 per cent.[6]

[5] Inclusive of interest paid on derivatives.
[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.

Table 4
Quarterly performance in 2022
(Percentages in local currency terms)

	Quarterly performance in 2022 (year to date [YTD])				
	First quarter	Second quarter	Third quarter	Fourth quarter	*Gross excess return as at 31/12/2022 (YTD)*
Gross rate of return					
Transaction and operational tranches	(0.06)	(0.08)	0.08	0.67	n.a.[7]
Prudential tranche in US$	(0.32)	(0.44)	0.15	1.00	0.32
Prudential tranche in EUR	(0.50)	(1.51)	(1.81)	(0.95)	0.06
Gross rate of return	**(0.29)**	**(0.63)**	**(0.34)**	**0.45**	**n.a.**
Net rate of return	**(0.31)**	**(0.68)**	**(0.44)**	**0.28**	**n.a.**

Table 5
IFAD portfolio net performance rolling average as of 31 December 2022
(Percentages in local currency terms)

	YTD	*One year*	*Three years*	*Five years*
Portfolio performance	0.28	0.28	0.33	0.64

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

Table 6
Historical net annual performances versus benchmarks[8]
(Percentages in local currency terms)

	2022		*2021*		*2020*		*2019*		*2018*	
	Actual	*Benchmark*	*Actual*	*Benchmark*	*Actual*	*Benchmark*	*Actual*	*Benchmark*	*Actual*	*Benchmark*
Transaction and operational tranches	0.61	n.a.	(0.30)	n.a	0.10	0.10	1.31	1.31	0.88	0.88
Prudential tranche in US$	0.80	0.68	0.59	0.06	1.14	1.12	2.73	1.11	2.16	0.00
Prudential tranche in EUR	(1.14)	(1.01)	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)	**0.45**	**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)	**0.28**	**n.a**	**0.16**	**n.a**	**0.55**	**n.a**	**2.13**	**n.a.**	**0.09**	**n.a.**

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 31 December 2022.

[7] Whereas the transaction tranche does not have a benchmark, the operational tranche is benchmarked as follows: for United States dollar-denominated holdings in the operational tranche, the benchmark is ICE BofA 0-1 Year United States Treasury Index. For euro-denominated holdings in the operational 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 operational tranches when the front office platform and Treasury Management System are upgraded (foreseen for 2022/2023).
[8] The table shows old portfolios that were part of IFAD's investment portfolio until 2019.

Table 7
Investment portfolio by instrument as at 31 December 2022

	Actual portfolio allocation	
	Millions of US$	*Actual portfolio allocation (%)*
Sovereigns/supranationals/agencies	633.9	43.9
Cash	416.5	28.8
Financial institutions	228.3	15.8
Corporates	92.1	6.4
Local governments and sovereign-sponsored securitizations	25.1	1.7
Derivatives	49.6	3.4
Total	**1 445.4**	**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 31 December 2022, the overall portfolio duration was 0.20 years, equal to the 0.20 years reported for the last quarter of 2021.

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

	31 December 2022		*31 December 2021*	
	Portfolio	*Benchmark*	*Portfolio*	*Benchmark*
Prudential tranche in EUR	0.37	0.46	0.32	0.45
Prudential tranche in US$	0.11	0.42	0.28	0.46
Total portfolio (including operational cash)	**0.20**	**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 December 2022, the CVaR for the overall portfolio stood at 0.82 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 %)	
	31 December 2022	*31 December 2021*
Prudential tranche in EUR	1.79	0.16
Prudential tranche in US$	1.10	0.22
Total portfolio (including cash) *	**0.82**	**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)[9]. 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 December 2022.

Table 10a
Investment portfolio composition by credit rating as at 31 December 2022
(In percentages, including cash and swaps)

	Transaction and operational tranches	*Prudential tranche in US$*	*Prudential tranche in EUR*	*Total*
AAA	0.0	12.0	1.8	13.8
AA+	0.0	3.8	0.0	3.8
AA	0.0	9.4	5.5	14.9
AA-	0.0	10.3	13.3	23.6
A+	0.0	2.6	4.9	7.5
A	0.0	0.0	1.5	1.5
A-	0.0	0.0	2.9	2.9
Cash	28.6	(0.1)	0.0	28.6
Swaps	0.0	1.6	1.9	3.4
Total	**28.6**	**39.6**	**31.8**	**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 31 December 2022, this share was 84.2 per cent, as shown in table 10b.

Table 10b
Investment portfolio composition by credit rating as at 31 December 2022
(In percentages, excluding cash and swaps)

	Transaction and operational tranches	*Prudential tranche in US$*	*Prudential tranche in EUR*	*Cumulative total*
AAA	0.0	19.8	2.6	22.4
AA+	0.0	3.6	0.0	25.9
AA	0.0	9.6	6.3	41.9
AA-	0.0	19.4	22.9	84.2
A+	0.0	3.5	6.8	94.5
A	0.0	0.0	2.6	97.0
A-	0.0	0.0	3.0	100.0
Total	**0.0**	**55.9**	**44.1**	**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.

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

25. Projections as at 31 December 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 31 December 2022
(Thousands of United States dollars equivalent)

Category	*CNY Group*	*EUR Group*	*GBP Group*	*JPY Group*	*USD Group*	*Grand total*
Inflows						
Cash	144	43 567	1 483	36	328 238	373 468
Investments	19	465 328	3	-	572 045	1 037 395
Contributions	59 597	319 305	34 522	33 356	299 590	746 370
Projected reflows	67 386	216 194	41 374	43 384	285 034	653 371
Debt drawdowns	-	154 005	-	-	313 333	467 338
Assets total	**127 146**	**1 198 399**	**77 383**	**76 776**	**1 798 240**	**3 277 944**
Outflows						
Projected disbursements	(45 789)	(591 702)	(28 114)	(29 479)	(979 733)	(1 674 817)
Projected operating expenses	-	(43 610)	-	-	(283 216)	(326 826)
Debt repayments and interests	-	(93 127)	-	-	(48 708)	(141 834)
Commitments total	**(45 789)**	**(728 438)**	**(28 114)**	**(29 479)**	**(1 311 657)**	**(2 143 477)**
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 31 December 2022, the minimum liquidity requirement (MLR) was US$1,006 million.[10]

28. IFAD's liquidity portfolio net asset value (NAV) of US$1,445 million and the stressed NAV of US$1,189 million (liquidity haircut at 17.70 per cent) were above the projected MLR of US$1,001 million (MLR ratio of 119 per cent).

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.

32. The IFAD ASMCS Trust Fund is managed externally by Payden & Rygel, which

[10] The MLR is currently updated semi-annually, with the latest update on 1 January 2023.

liaises with IFAD's custodian, Northern Trust, and IFAD for compliance, performance and risk-reporting purposes. As at 31 December 2022, the market value of the IFAD ASMCS Trust Fund portfolio stood at US$83.6 million, with a positive 1.40 per cent gross rate of return in 2022 (versus a positive 1.39 per cent for its benchmark).[11] The historical value at risk at a 95 per cent confidence level stood at 7.72 per cent, and effective duration at 3.39 years as at 31 December 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	(12.34)	(12.17)	(3.34)	(3.36)	(2.11)	(2.13)

33. As at 31 December 2022, 69.0 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 2022

	Actual portfolio allocation	
	Millions of US$	*Actual portfolio allocation (%)*
Credit	57.7	69.0
Government	17.9	21.4
Money markets	3.0	3.6
Cash	2.5	3.0
Quasi-sovereign	1.0	1.2
Agencies	1.0	1.2
Covered bond	0.3	0.3
Emerging markets	0.2	0.2
Total	**83.6**	**100.0**

34. Finally, the World Bank RAMP investment portfolio stood at US$160 million as at 31 December 2022. As reported by the World Bank, the portfolio generated positive 0.75 per cent of gross return in 2022, outperforming its benchmark by 0.07 per cent (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	0.75	0.68	0.75	0.68	1.35	1.24

35. The historical value at risk at 95 per cent confidence level stood at 0.50 per cent and effective duration at 0.49 years as at 31 December 2022, as reported by Northern Trust.

36. Tables 15 and 16 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 15
World Bank RAMP investment portfolio by instrument as at 31 December 2022

	Millions of US$	*Actual portfolio allocation (%)*
Sovereign government	105.8	66.0
Agency	23.6	14.7
Covered bonds	10.9	6.8
Sovereign guaranteed	4.0	2.5
Supra/multilaterals	8.6	5.4
Cash and cash equivalent	7.2	4.5
Total	**160.3**	**100.0**

Table 16
World Bank RAMP investment portfolio risk contribution as at 31 December 2022

	Risk contribution	
	Portfolio duration (months)	*Benchmark duration (months)*
US$		
Interest rates	5.7	5.2
Spreads	1.9	-

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.

Environmental, social and governance (ESG). The ESG 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.[12]

[12] https://www.unglobalcompact.org/what-is-gc/mission/principles.