Investing in rural people

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Report on IFAD's investment portfolio for the first semester of 2023

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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. The macroeconomic context remained challenging in many developed economies due to slowing growth and sticky inflation. Led by the United States Federal Reserve Bank (Fed), many central banks such as the European Central Bank (ECB) and Bank of England hiked their key interest rates many times, resulting in an upward shift in yield curves, especially for short- and medium-term maturities.The euro appreciated by 4.20 per cent against the United States dollar, due to weaker economic conditions and tightening monetary policy in the eurozone.

2. During the first half of 2023 (H1), the net rate of return[1] for IFAD's investment portfolio was positive 2.17 per cent, with a net investment income of positive US$26 million. Overall, the portfolio continued to outperform the benchmark. The prudential tranche in United States dollars outperformed the benchmark by 0.13 per cent (versus outperformance by 0.12 per cent in 2022); the prudential tranche in euros outperformed the benchmark by 1.36 per cent (versus underperformance by 0.13 per cent in 2022). While the fixed-income sector recovered from the turbulent market conditions of the previous year, it remained sensitive to central bank policy tightening and economic data releases, resulting in heavy losses for the fixed-income segment. Early in the year, the United States experienced a short-lived regional bank crisis that saw large deposit outflows and the collapse of a few smaller regional banks. In a parallel development, Credit Suisse also suffered a major outflow; however, neither the United States nor the European banking sector saw any further contagion.The magnitude of central bank rate hikes over the past year is unprecedented in recent history and may have contributed to this development. Consequently, government bond curves inverted drastically, while the longer end of the curve remained anchored. This points to investor concerns about a potential economic slowdown, despite resilient economic data in H1. The persistent rate hikes from both the Fed and the ECB have had only a limited impact on economic growth so far. GDP and other data releases pointed to a relatively stable economy and an expansionary labour market. Towards the end of the second quarter, however, economic figures tilted towards a cooling off in growth and a tightening of labour market conditions. Credit spreads remained stable in the first half of 2023, which has supported IFAD's liquidity portfolio, given its exposure to sovereigns, supranationals and agencies.

3. The value of the investment portfolio in United States dollar terms increased by US$457 million from US$1.445 billion as at 31 December 2022 to US$1.902 billion as at 30 June 2023. The main drivers were net flows of US$421.5 million and investment income of US$26 million, partly offset by the unrealized loss generated by negative foreign exchange movements of US$9.5 million.

4. The portfolio's conditional value at risk (CVaR) increased from 0.82 to 0.84 per cent in H1 2023.[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 30 June 2023 are shown below:

   - The portfolio duration level increased from 0.20 to 0.35 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 84.79 per cent).

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

[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 a 95 per cent confidence level, as defined in the Investment Policy Statement and the investment guidelines. The figures reported here are retrieved from the Bloomberg PORT Solution, a widely established risk metrics tool.

Table 1a
Key portfolio changes in H1 2023

	H1 2023	*Q4 2022*
Portfolio size (thousands of US$)	1 902 116	1 445 452
Net investment income (thousands of US$)	25 669	888
Net rate of return (%)	2.17	0.28
Duration	0.35	0.20
CVaR, historical 1-year (%)	0.84	0.82

6. IFAD successfully maintained the portfolio’s resilience throughout the central banks’ policy normalizations and challenging market conditions and achieved a net portfolio performance of positive 2.17 per cent. The portfolio outperformed by benefiting from the higher yields of new short-term investments, a roll-down strategy and conservative asset allocation towards high-quality liquid assets. The impact of yield increases on existing and longer-dated portfolio positions remained limited, given its short duration strategy, which is also implemented through interest rate derivatives. 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 the first semester of 2023

I. Market conditions

1. The first half of 2023 (H1) was marked by stubbornly high inflation, unprecedented central policy tightening, a United States regional banking crisis and resilient economic growth. Persistent rate hikes by the United States Federal Reserve Bank (Fed) and the European Central Bank (ECB) appear to have had a limited impact on United States and euro area economic growth so far. The United States showed signs of slowing economic growth but managed to avoid a recession. Revised GDP data for the euro area confirmed a technical recession in the fourth quarter (Q4) of 2022 and Q1 2023, although milder than initially expected following the Russian gas flow cut-off towards the end of 2022.

2. Most central banks continued on the policy tightening path throughout the first half of 2023. The Fed's Federal Open Market Committee increased the federal funds rate four times from 4.75 per cent to 5.25 per cent, while the ECB hiked its deposit facility rate four times from 2 per cent to 3.50 per cent, making it the fastest and largest policy tightening cycle in more than 20 years. Global headline inflation has come down as a result, reflecting a softening of energy and food prices. Core inflation, however, remained at levels well above central bank objectives, services inflation being the main driver.

3. Consequently, major central banks have signalled that their tightening cycles are not yet complete. The ECB, Reserve Bank of Australia and Bank of Canada have all hiked their key policy rates in the first half of 2023 and indicated the potential need for further increases. The Fed, in contrast, opted to pause at its June meeting, after a total of 5 per cent in tightening. Despite this pause, the Fed indicated that additional rate hikes were still likely.

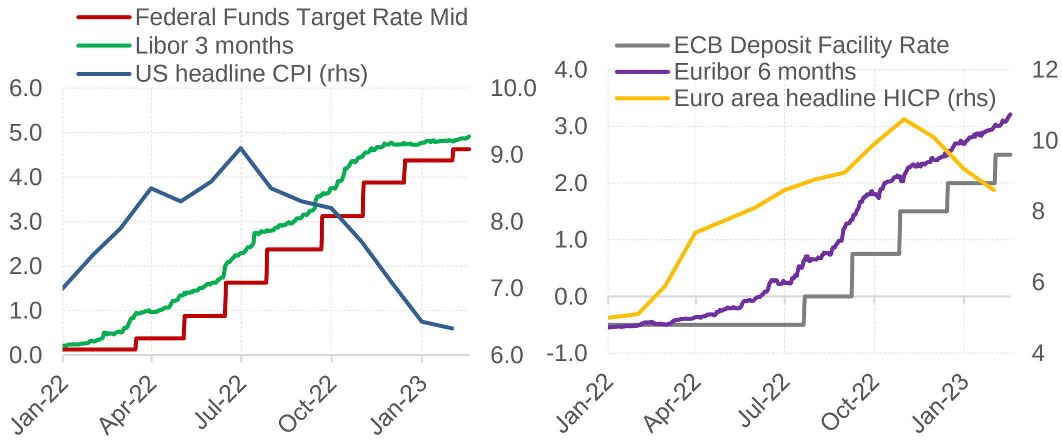
4. Although rate increases were largely anticipated by market participants and investors, markets upwardly repriced the policy rate path multiple times as a result of sticky inflation data. This caused government bond curves to remain inverted, with the short end of the curve strongly reacting to the interest rate hikes, while the longer end of the curve remained anchored. This points to investor concerns about an imminent economic slowdown, which has not yet materialized, and expectations of policy reversals. The IFAD liquidity portfolio has remained cautious of duration, given the uncertainty surrounding the future rate hike path and the potential to benefit from higher yields at the short end of the curve.

5. During Q1, the United States further suffered from a regional banking sector crisis, which led to large deposit outflows from regional banks and the collapse of several. On the European side, Credit Suisse also experienced a major outflow; however, the sector saw no further contagion. While the crisis was short lived and banks benefited from additional central bank support, the stress may have resulted in reduced access to funding, impacting the broader economy and lending channels. The IFAD liquidity portfolio is not exposed to United States regional banks and only holds one position in a major United States bank. Other exposure to banks is limited to euro area countries, Canada and the United Kingdom, and the portfolio suffered no impact from the crisis.

6. Global credit spreads for supranational and agency bonds have moved broadly sideways throughout the year. Swap spread performance for euro-denominated bonds has been stable, driven partly by elevated Bund-swap spread levels. ECB quantitative tightening had only a limited impact on spreads, as other investors offset the lack of ECB demand given the higher yields. United States dollar-denominated supranational and agency spreads against treasuries have remained relatively tight, with large primary market issuance volumes. The IFAD

liquidity portfolio benefited from the above-mentioned developments, given its focus on the sector.

Figure 1
Fed and ECB policy rate path and inflation figures



Source: Bloomberg.

Note: CPI (rhs) = consumer price index (right hand side); Libor = London Interbank Offered Rate; Euribor = Euro Interbank Offered Rate; HICP = Harmonized Index of Consumer Prices.

Figure 2
Evolution of option-adjusted spread against governments for United States dollar and euro supranational and government agency bonds and bond market volatility

Source: Bloomberg, ICE Bond Indices.

MOVE (Merrill Lynch Option Volatility Estimate) is an index that tracks the movement in United States Treasury yield volatility.

II. Portfolio objectives

A. Portfolio tranches

7. 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.

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

- **Operational tranche.** Replenishes the transaction tranche, when necessary, and receives excess cash from the transaction tranche. It guarantees the availability of sufficient instruments easily convertible to cash. Together with the transaction tranche, it ensures that expected and unforeseen short-term liquidity requirements are met.
- **Prudential tranche.** Enables IFAD to prudently optimize 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.

8. The net asset value of the portfolio by asset allocation in the above tranches is presented in the table below.

Table 1b
Liquidity portfolio's tranches as at 30 June 2023

Tranche	*%*	*US$ millions*
Transaction	2.54	48.29
Operational	36.09	686.50
Prudential	61.37	1167.33
in EUR	24.58	467.49
in US$	36.79	699.84
Total	**100.0**	**1 902.12**

B. Environmental, social and governance principles

9. As a responsible investor, IFAD's main objective is to invest in securities where the issuer, at a minimum, adheres to fundamental human rights, labour, environment and anticorruption principles. 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.

10. Consistent with the revised IPS,[4] 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 products and services, weapons, arms, coal extraction, coal-fired power generation, tobacco, alcohol and gambling.

11. Subject to the 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.

12. Throughout the first half of 2023, all new securities acquired for IFAD's investment portfolio were fully compliant with the aforementioned environmental, social and governance principles.

III. Portfolio allocation

13. During the first half of 2023, the value of the investment portfolio rose by US$457 million, with net inflows to the transaction and operational tranches, as well as to the prudential tranche in United States dollars, which was the largest contributor to the increase. This is primarily explained by the encashment of core resources (contributions) and the issuance of two private placements during the first half of 2023.

[4] EB 2022/137/R.40. As per the revised IFAD Investment Policy Statement of 16 November 2022, the liquidity tranche has been renamed the "operational tranche" and the investment tranche as the "prudential tranche" to clarify the purpose of each.

Table 2
Drivers of IFAD's investment portfolio in H1 2023
(Thousands of United States dollar equivalents)

	Transaction and operational tranches[a]	*Prudential tranche in US$*[b]	*Prudential tranche in EUR*[c]	*Other*[d]	*Total*
Opening balance (31 December 2022)	**413 911**	**572 038**	**459 503**	**-**	**1 445 452**
Net investment income	(80)	14 509	11 244	(4)	25 669
Net flows[e]	322 268	113 293	(14 116)	24	421 468
Foreign exchange movements	(1 330)	-	10 857	(1)	9 527
Closing balance (30 June 2023)	**734 770**	**699 839**	**467 488**	**19**	**1 902 116**

[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] The prudential tranche in United States dollars replaces the former global liquidity portfolio.
[c] The 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 from 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

14. Gross investment income in the first half of 2023 amounted to positive US$26.89 million, with net investment income inclusive of investment, custody and advisory fees as well as bank charges, totalling positive US$25.67 million. Table 3 presents a summary of H1 2023's investment income, with a breakdown by portfolio, where higher interest rates have led to higher interest income.

Table 3
Breakdown of IFAD's investment income by portfolio in H1 2023
(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]	-	14 231.91	8 900.62	-	23 132.53
Realized market gains/(losses)	-	(67.14)	999.37	-	932.23
Unrealized market gains/(losses)	-	1 077.46	1 746.43	-	2 823.88
Investment income before fees	**-**	**15 242.23**	**11 646.41**	**-**	**26 888.64**
Investment manager fees	-	-	-	-	-
Custody fees	(1.5)	(188.93)	(36.72)	(4.36)	(231.50)
Bank charges	(78.55)	-	(0.01)	-	(78.55)
Advisory and other investment-related fees	-	(544.14)	(365.55)	(0.01)	(909.70)
Investment income after fees	**(80.04)**	**14 509.17**	**11 244.14**	**(4.37)**	**25 668.89**

V. Rate of return

15. As reported by the custodian, Northern Trust, IFAD's investment portfolio generated a gross positive return of 2.24 per cent in the first half of 2023, with the prudential tranche in United States dollars generating a gross positive return of 2.39 per cent, outperforming the benchmark (ICE Bank of America BofA 0-1 Year United States Treasury Index) by 0.24 per cent. The prudential tranche in euros generated a gross positive return of 2.34 per cent during that same period, with an excess return of 1.45 per cent against its benchmark (ICE BofA 0-1 Year AAA-AA

[5] Inclusive of interests paid on derivatives.

Euro Government Index). The net rate of return for the entire investment portfolio was positive 2.17 per cent.[6]

Table 4
First half-yearly performance in 2023
(Percentages in local currency terms)

	H1 performance in 2023 (year to date [YTD])		*Gross excess return as at 30/06/2023 (YTD)*
	First quarter	*Second quarter*	
Gross rate of return			
Transaction and operational tranches	0.89	2.09	n.a.
Prudential tranche in US$	1.18	2.39	0.24
Prudential tranche in EUR	0.56	2.34	1.45
Gross rate of return	**0.88**	**2.24**	**n.a.**
Net rate of return	**0.87**	**2.17**	**n.a.**

Table 5
IFAD portfolio net performance rolling average as at 30 June 2023
(Percentages in local currency terms)

	YTD	*One year*	*Three years*	*Five years*
Portfolio performance	2.17	3.16	1.11	1.10

16. 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)

	H1 2023		*2022*		*2021*		*2020*		*2019*	
	Actual	*Benchmark*	*Actual*	*Benchmark*	*Actual*	*Benchmark*	*Actual*	*Benchmark*	*Actual*	*Benchmark*
Transaction and operational tranches	2.08	n.a.	0.61	n.a.	(0.3)	n.a	0.1	0.1	1.31	1.31
Prudential tranche in US$	2.28	2.15	0.80	0.68	0.59	0.06	1.14	1.12	2.73	1.11
Prudential tranche in EUR	2.25	0.89	(1.14)	(1.01)	0.09	(0.63)	0.13	0.16	1.22	0.17
Global strategic portfolio	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	1.93	0.62
Global government bonds	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a.	n.a.
Global credit portfolio	-	-	-	-	-	-	n.a	n.a	3.65	4.72
Global inflation-indexed bonds	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a.	n.a.
Emerging market debt bonds	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a.	n.a.
Gross rate of return (excluding fees)	**2.24**	**n.a**	**0.45**	**n.a**	**0.28**	**n.a**	**0.67**	**n.a**	**2.22**	**n.a.**
Net rate of return (including all fees)	**2.17**	**n.a**	**0.28**	**n.a**	**0.16**	**n.a**	**0.55**	**n.a**	**2.13**	**n.a.**

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

[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.

VI. Composition of the portfolio by instrument

17. Table 7 shows the composition of the investment portfolio by investment instrument – following Standard & Poor's asset classification – as at 30 June 2023.

Table 7
Investment portfolio by instrument as at 30 June 2023

	Actual portfolio allocation	
	Millions of US$	*Actual portfolio allocation (%)*
Cash	772.80	40.6
Sovereigns/supranationals/agencies	716.57	37.7
Financial institutions	309.96	16.3
Derivatives	45.56	2.4
Local governments and sovereign-sponsored securitizations	40.72	2.1
Corporates	16.51	0.9
Total	**1 902.12**	**100**

VII. Risk measurements

18. 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

19. 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 2023, the overall portfolio duration was 0.35 years, compared to 0.20 years reported for the year ended in 2022.

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

	30 June 2023		*31 December 2022*	
	Portfolio	*Benchmark*	*Portfolio*	*Benchmark*
Prudential tranche in EUR	0.22	0.51	0.37	0.45
Prudential tranche in US$	0.71	0.43	0.11	0.46
Total portfolio (including operational cash)	**0.35**	**n.a**	**0.20**	**n.a**

Note: The total portfolio duration is shortened 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

20. The CVaR is a measure of the potential percentage losses to a portfolio under extreme market conditions. The investment portfolio CVaR is measured for one year at a 95 per cent confidence level.

21. The maximum risk level for the IFAD portfolio is stated in the IPS as a CVaR of 3.0 per cent. In June 2023, the CVaR for the overall portfolio stood at 0.84 per cent, in compliance with the IPS risk level and higher than the 0.82 per cent shown in December 2022.

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 (%)	
	30 June 2023	*31 December 2022*
Prudential tranche in EUR	1.60	1.79
Prudential tranche in US$	1.88	1.10
Total portfolio (including cash) *	**0.84**	**0.82**

* 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

22. 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 "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.

23. 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)[7]. 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 30 June 2023
(In percentages, including cash and swaps)

	Transaction and operational tranches	*Prudential tranche in US$*	*Prudential tranche in EUR*	*Total*
AAA	0.00	16.96	1.83	18.79
AA+	0.00	3.53	0.00	3.53
AA	0.00	5.50	1.85	7.35
AA-	0.00	8.70	9.94	18.64
A+	0.00	0.78	3.93	4.71
A	0.00	0.00	1.20	1.20
A-	1.04	0.00	1.71	2.76
Cash[8]	37.59	0.12	2.92	40.63
Swaps	0.00	1.20	1.20	2.40
Total	**38.63**	**36.79**	**24.58**	**100.00**

24. The IPS also requires that the share of fixed-income investments (i.e. excluding cash and swaps) in rating category AA- and above be at least 60 per cent of the total portfolio. As at 30 June 2023, this share stood at 84.79 per cent, as shown in table 10b.

Table 10b
Investment portfolio composition by credit rating as at 30 June 2023
(In percentages, excluding cash and swaps)

	Transaction and operational tranches	*Prudential tranche in US$*	*Prudential tranche in EUR*	*Cumulative total*
AAA	0.00	29.76	3.21	32.97
AA+	0.00	6.20	0.00	39.17
AA	0.00	9.65	3.24	52.06
AA-	0.00	15.28	17.45	84.79
A+	0.00	1.37	6.90	93.06
A	0.00	0.00	2.11	95.16
A-	0.00	1.83	3.01	100.00
Total	**0.00**	**64.09**	**35.91**	**100.00**

D. Currency risk: currency composition analysis

25. As per IFAD's currency alignment methodology, 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 (liquidity deficits) of any currency above 10 per cent of total outflows

[7] The rating that is compared to the rating floor is the second-best rating of three agencies: Standard & Poor's, Moody's, and Fitch.
[8] The cash in the prudential tranche in United States dollars includes the negative amount of pending trade sales.

would require ad hoc hedging positions to reduce foreign exchange exposure to below the 10 per cent threshold.

26. As at 30 June 2023, projections show that the Fund's currency composition is adequate to cover the 24-month projected currency outflows.

Table 11
Currency composition of the next 24-month projected cash flows as at 30 June 2023
(Thousands of United States dollar equivalents)

Category	*CNY Group*	*EUR Group*	*GBP Group*	*JPY Group*	*USD Group*	*Grand total*
Inflows						
Cash	144	76 765	4 068	33	633 982	714 993
Investments	15	467 496	4	-	719 668	1 187 183
Contributions	48 467	266 328	33 736	37 680	283 729	669 940
Projected reflows	-	142 128	7 588	-	651 628	801 344
Debt drawdowns	-	88 256	-	-	622 333	710 589
Total assets	**48 627**	**1 040 973**	**45 396**	**37 713**	**2 911 340**	**4 084 050**
Outflows						
Projected disbursements	(2 832)	(584 249)	(1 919)	(1 742)	(1 285 439)	(1 876 180)
Projected operating expenses	-	(47 794)	-	-	(310 391)	(358 185)
Debt repayments and interests	-	(139 434)	-	-	(62 368)	(201 803)
Total commitments	**(2 832)**	**(771 478)**	**(1 919)**	**(1 742)**	**(1 658 198)**	**(2 436 168)**
Current hedging						
Currency forwards	-	-	-	-	-	-
Total hedging	**-**	**-**	**-**	**-**	**-**	**-**
Deficit	-	-	-	-	-	-
Deficit as percentage of commitments	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

E. Liquidity risk: minimum liquidity requirement

27. The Liquidity Policy indicates the level of liquidity, stressed by a haircut for less liquid assets, that IFAD must hold at any time to cover the next 12 months' disbursements of loans, grants and scheduled debt repayments. It also establishes 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.

28. As at 30 June 2023, the minimum liquidity requirement (MLR) was US$1,006 million.[9]

29. IFAD's liquidity portfolio net asset value (NAV) of US$1,902.12 million and the stressed NAV of US$1,687 million (liquidity haircut at 11.33 per cent) were above the projected MLR of US$1,006 million (MLR ratio of 168 per cent).

VIII. External investment managers

30. External investment managers are formally appointed through an investment management agreement entered into with IFAD. The agreements detail the responsibilities of managers.

31. 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 included in each agreement.

32. Although the purpose of this document is primarily to report on IFAD's internally managed investment portfolio, it now includes a dedicated section for external

[9] The MLR was last updated on 1 April 2023.

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.

33. The IFAD ASMCS Trust Fund is managed externally by Payden & Rygel, which liaises with IFAD's custodian, Northern Trust, and IFAD for compliance, performance and risk-reporting purposes. As at 30 June 2023, the market value of the IFAD ASMCS Trust Fund portfolio stood at US$85.6 million, with a positive 2.42 per cent gross rate of return in the first half of 2023 (versus a positive 2.78 per cent for its benchmark).[10] The historical value at risk at a 95 per cent confidence level stood at 6.61 per cent and effective duration at 3.76 years as at 30 June 2023, as reported by Payden & Rygel.

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

	H1 2023		*Trailing three years*		*Trailing five years*	
	Actual	*Benchmark*	*Actual*	*Benchmark*	*Actual*	*Benchmark*
IFAD ASMCS Trust Fund	2.42	2.78	(3.13)	(2.91)	(1.35)	(1.21)

34. As at 30 June 2023, 73.57 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 2023

	Actual portfolio allocation	
	Millions of US$	*Actual portfolio allocation (%)*
Credit	62.96	73.57
Government	16.83	19.67
Cash	1.91	2.23
Money markets	1.72	2.01
Agencies	1.01	1.19
Quasi-sovereign	0.69	0.81
Covered bond	0.29	0.33
Emerging markets	0.17	0.20
Total	**85.58**	**100.00**

35. Finally, the World Bank RAMP investment portfolio stood at US$164 million as at 30 June 2023. As reported by the World Bank, the portfolio generated positive 2.28 per cent of gross return in the first half of 2023, outperforming its benchmark by 0.13 per cent (ICE BofA 0-1 Year United States Treasury Index).

Table 14
Historical gross annual performances versus benchmarks

	H1 2023		*Rolling one year*		*Inception to Date*	
	Actual	*Benchmark*	*Actual*	*Benchmark*	*Actual*	*Benchmark*
IFAD World Bank RAMP Investment portfolio	2.28	2.15	3.27	3.17	1.62	1.50

36. The historical value at risk at 95 per cent confidence level stood at 0.52 per cent and effective duration at 0.47 years as at 30 June 2023, as reported by Northern Trust.

37. Tables 15 and 16 show the asset allocation and risk contribution of the RAMP investment portfolio.

[10] 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 2023

	Millions of US$	*Actual portfolio allocation (%)*
Sovereign government	114.76	70.00
Agency	33.44	20.40
Supra/multilaterals	10.82	6.60
Covered bonds	4.75	2.90
Cash and cash equivalent	0.16	0.10
Total	**163.94**	**100.00**

Table 16
World Bank RAMP investment portfolio risk contribution as at 30 June 2023

	Risk contribution	
	Portfolio duration (months)	*Benchmark duration (months)*
US$		
Interest rates	5.0	5.2
Spreads	1.4	-

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 in 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.[11]

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