Investing in rural people

Executive Board
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IFAD's Investment Policy Statement 2024

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Action: The Executive Board is invited to approve IFAD's Investment Policy Statement, as contained in this document.

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Preamble

1. The Investment Policy Statement (IPS) is designed to establish fundamental directives for the placement of IFAD funds. While the Liquidity Policy lays down the directives for the amount of liquidity required, the IPS describes the parameters and criteria to be used in the management of IFAD's investments. The IPS also aims at ensuring that financial counterparts abide, with utmost diligence, by the Ten Principles of the United Nations Global Compact.

2. The responsibility to set the IPS rests with the Executive Board, within the parameters established by the Governing Council, whereas the President remains responsible for ensuring implementation of the IPS.

IFAD's Investment Policy Statement 2024

I. Scope and purpose

1. The Investment Policy Statement (IPS) provides a framework for the management of IFAD's investments. The purpose of the IPS is to:
   (i) Identify key roles and responsibilities related to the governance of IFAD's investment portfolio (section II);
   (ii) Set forth IFAD's investment objectives for risk and return, including eligible asset classes (section III);
   (iii) Establish a risk management framework (section IV); and
   (iv) Define the approach to asset allocation and tranching of the investment portfolio (section V).

A. Definition of investor and assets

2. IFAD is a specialized agency of the United Nations. It came into existence on 30 November 1977, when the Agreement Establishing IFAD entered into force. Membership in the Fund is open to any Member State of the United Nations – or any of its specialized agencies – or the International Atomic Energy Agency.

3. This IPS governs the investments of the Fund's resources that are derived from regular replenishments, borrowed funds or loan reflows, and that are used for commitments of loans and grants under IFAD's regular programme. It also serves as a framework for investments of other cash funds entrusted to and managed by the Fund, and will complement any gaps left uncovered by separate policies and guidelines established to govern such other assets.

B. Actors and their roles

Governing Council

4. The Governing Council is IFAD's main decision-making body. Each Member State is represented in the Governing Council and all the powers of the Fund are vested in the Governing Council. Subject to the limitations stated in the Agreement Establishing IFAD, the Governing Council may delegate powers to the Executive Board.

Executive Board

5. The Executive Board is responsible for overseeing the general operations of the Fund and exercises the powers given to it by the Agreement Establishing IFAD or delegated to it by the Governing Council.

Audit Committee

6. The Executive Board has established a subsidiary body, the Audit Committee, to which it refers, among other matters, questions concerning the investment of IFAD's resources in preparation for decisions by the Executive Board.

The President

7. The President is the legal representative of IFAD. Under the direction of the Governing Council and the Executive Board, the President heads, organizes, appoints and manages the Fund's staff, and is responsible for conducting the business of the Fund. Unless otherwise stated, the President is authorized to delegate any of the authorities entrusted to him/her to any of the Fund's staff. Based on the President's authority to organize staff, the President is authorized to reconfigure IFAD's organizational structure. The President may place or invest cash funds not needed immediately for the Fund's operations or administrative expenditures.

8. In order to discharge functions related to financial management and investments, the President has established a Management Committee to oversee the effective implementation and review of the Fund's financial risk management frameworks and policies.

II. Governance

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

9. The President will ensure implementation and monitoring of all aspects of the investment policy.

B. Process for reviewing and updating the investment policy

10. The appropriateness of the investment policy will be reviewed annually by the Executive Board at the last session of each calendar year on the basis of a report submitted to it by the President. Having considered the report, the Executive Board may amend and update the IPS accordingly.

C. Responsibilities for approving investment guidelines and changes

11. Acting under regulation XIV of the Financial Regulations of IFAD and in implementation of regulation VIII, the President shall approve and adopt the investment framework for managing each investment portfolio within the limits defined in the IPS. Delegated authorities related to the management of Treasury Services Division ("Treasury") investments will be reflected in IFAD's delegation of authority table and other internal IFAD instruments, as applicable.

D. Responsibilities for engaging and discharging external investment managers, the custodian bank(s) and other financial advisers

12. The President is responsible for the appointment and dismissal of external investment managers, the custodian bank(s) and other financial advisers required to execute the Fund's investments.

13. External investment managers must fulfil the following initial requirements in order to be considered for the selection process:

    (i) Investment managers must clearly articulate the investment strategy that they will follow and document that such strategy has been adhered to over time;

    (ii) Investment managers must, in all countries in which they operate, adhere to the governing legislation and regulations concerning financial services, including the authority of the competent regulatory bodies;

    (iii) Investment managers must comply with the Global Investment Performance Standards[1] and should provide at least historical quarterly performance data calculated on a time-weighted basis, based on a composite of fully discretionary accounts or similar investment style, and reported net and gross of fees; and

    (iv) Investment managers must provide detailed information on the history of the firm, key personnel, key clients, fee schedule and support personnel.

[1] Global Investment Performance Standards (GIPS) are a set of voluntary standards used by investment managers throughout the world to ensure the full disclosure and fair representation of their investment performance. The GIPS were created by the Chartered Financial Analyst Institute, a global association for investment management professionals.

14. External investment managers are formally appointed through the signing of an investment management agreement by the President. The agreements outline in detail the responsibilities of the managers.

15. A copy of this IPS, as updated from time to time, is provided to each external investment manager retained to provide investment services to IFAD. Each manager will acknowledge receipt of the document and acceptance of its content in writing as part of the agreement.

E. Responsibilities for monitoring external investment managers, the custodian bank(s) and financial advisers

16. The President will ensure that dedicated organizational units are made responsible for developing and maintaining relationships with external investment managers, custodian banks and financial advisers.

17. These units will ensure that appointed investment managers fulfil their mandates within the contractual obligations outlined in the relevant investment management agreement, including the investment guidelines incorporated into each agreement.

F. Responsibilities for internally managed investments

18. The President will ensure that internal investment portfolios are managed appropriately by the relevant organizational unit in line with this IPS and the specific investment guidelines.

III. Investments, return and risk objectives

A. Overall investment objective

19. Regulation VIII (2) of the Financial Regulations of IFAD forms the basis of IFAD’s investment objectives, which for the purpose of this IPS are:

    (i) **Security –** preservation of the value of invested assets;

    (ii) **Liquidity** – resources must be readily available if and as required by operations; and

    (iii) **Return –** the highest possible return within the above conditions in a non-speculative manner.

B. Risk tolerance

20. The level of risk taken should be consistent with the overall investment objective of the Fund. Consequently, IFAD will only accept non-speculative risk in order to achieve its investment objectives. The risk tolerance level for the portfolio is set at a conditional value at risk (CVaR)[2] of 3 per cent, which is consistent with a low appetite for financial risk, particularly in respect of liquidity risk and credit risk, as stipulated in the IFAD Risk Appetite Statement.[3] The President will ensure the periodic assessment of risk limits and the reporting of compliance with such risk limits. These limits will include the limit set for total portfolio CVaR, counterparty, issuer and security credit risk limits and asset class rating floors.

C. Return on investment requirements

21. The primary objective of IFAD's investments, as stated above, is to maintain the security and liquidity of funds invested. Subject to these two parameters, IFAD seeks to maximize prudently the total return on its investments.

[2] CVaR assesses the Fund’s potential loss at specific levels of probability and timeframes. Also known as the expected shortfall, CVaR is a risk assessment measure that quantifies the tail risk of an investment portfolio. CVaR is calculated on the basis of a weighted average of the extreme losses in the tail of the distribution of possible returns, beyond the value at risk cut-off point.

[3] EB 2021/134/R.21/Rev.1.

D. Eligible asset classes

22. The following asset classes are eligible within IFAD's asset allocation (see table 1 below for asset class rating floors):

Money market instruments

(i) Demand deposits;

(ii) Time deposits;

(iii) Certificates of deposit;

(iv) Commercial papers;

(v) Treasury bills;

(vi) Reverse repurchase (reverse repo) agreements; and

(vii) Money market funds (constant net asset value, short-term funds only).

Currency instrument

Spot foreign exchange

Fixed-income securities

(i) Bonds issued or guaranteed by sovereign governments and government agencies, at national or subnational level;

(ii) Bonds issued or guaranteed by supranational organizations;

(iii) Sovereign-sponsored asset-backed securities, including agency-issued or guaranteed mortgage-backed securities;

(iv) Corporate bonds;

(v) Bonds issued or guaranteed by financial institutions and depository banks;

(vi) Covered bonds that are issued or guaranteed by any of the entities above;

(vii) Callable bonds that are issued or guaranteed by any of the entities above; and

(viii) Inflation-linked bonds that are issued or guaranteed by any of the entities above.

Derivatives are allowed only for hedging purposes:[4]

(i) Forward foreign exchange;

(ii) Foreign exchange swaps;

(iii) Cross currency swaps;

(iv) Forward interest rate agreements;

(v) Interest rate swaps;

(vi) Credit default swaps;

(vii) Exchange-traded futures and options; and

(viii) Over-the-counter options.

23. IFAD can enter into securities-lending agreements as well as repurchase (repo) and reverse repo transactions.

24. In addition to the aforementioned derivative transactions, IFAD is authorized to enter with its derivative counterparties into collateral arrangements based on the full title transfer (such as the International Swaps and Derivatives Association [ISDA] English law-governed collateral support annexes) and perform obligations

[4] This restriction does not apply to call options embedded in fixed income instruments, e.g. callable bonds.

thereunder, including posting the appropriate collateral. The relevant collateral to be posted by IFAD may take the form of cash and securities, including that acquired as a result of repo and reverse repo transactions.

25. The President shall determine the applicable thresholds for IFAD to post collateral and to request collateral from its counterparty or its collateral provider in the derivatives transactions.

26. IFAD does not use any form of leverage and does not use derivatives contracts to leverage positions in the investment portfolio.

E. Environmental, social and governance principles

27. Responsible investing entails, in addition to more traditional factors, the consideration of environmental, social and governance (ESG) factors in the choice of financial investments.

28. As a responsible investor, IFAD endeavours to manage ESG considerations, which are currently being integrated throughout the investment decision-making process. The Fund's main objective is to invest in securities where the issuer, at a minimum, adheres to fundamental principles of human rights, labour, environment and anti-corruption. IFAD adheres to the Ten Principles of the United Nations Global Compact (UNGC).[5] Only securities the issuers of which comply with the UNGC principles are considered by IFAD as eligible for investment.

29. Compliance with UNGC principles is implemented through systematic exclusion by norms-based screening of securities, based on threshold levels set by the President for each exclusion criteria, issued by entities:

    (i) Involved with unethical products or services, including but not limited to weapons and ammunitions, coal extraction, coal-fired power generation, tobacco, alcohol, and gambling; and

    (ii) Included in the United Nations Security Council Consolidated List of sanctioned entities.[6]

30. Subject to availability of market issuance and the risk tolerance levels prescribed in section IV, IFAD commits to invest a minimum percentage set by the President in respect of its liquidity portfolio in green bonds and other thematic ESG securities, including: bonds issued or guaranteed by supranational organizations, sovereign governments and government agencies, corporate bonds and asset-backed securities in the impact bond market.

F. Foreign currency management

31. IFAD aims to ensure that its assets are held in the same currency composition as its liabilities.

IV. Risk management of the investment portfolio

32. The President will ensure that risk tolerance levels are constantly monitored and reviewed by the relevant organizational unit. Through the report on IFAD's investment portfolio, the Executive Board will receive updates on overall portfolio and individual investment portfolio risk levels, and will be informed of any adjustments to be made to align these with agreed risk levels.

33. Any risk-mitigating measures taken will be reported to the Executive Board as part of the report on IFAD's investment portfolio.

[5] https://www.unglobalcompact.org/what-is-gc/mission/principles.
[6] https://www.un.org/securitycouncil/content/un-sc-consolidated-list.

A. Risk reporting

34. The President will ensure that analyses are performed and reports are prepared on the following financial risks emanating from the investment portfolio by the relevant organizational unit.

Market risk

35. Market risk is monitored for the overall portfolio and for single mandates based on measures provided by appropriate financial models and industry standard risk analytics. Ex ante and ex post risk analyses will be performed on IFAD's Treasury assets in addition to stress tests based on extreme historical market events and instantaneous shocks for different asset classes.

Credit risk

36. Credit risk[7] related to investment instruments, issuers, counterparties or their credit support providers are generally managed through the establishment of a minimum rating floor in line with table 1 below and, in line with paragraph 39 below, a specified percentage of investments is allocated to highly-rated securities and issuers. The acceptable level of credit risk is determined on the basis of ratings by major credit rating agencies. Credit and counterparty risk analyses are performed for all internally managed investments.

37. Without prejudice to the above, for externally managed assets, commercial banks and central banks, the credit and counterparty risk analyses may be carried out on a selective basis using financial information systems, credit analysis providers and other sources. All other credit and counterparty risk analyses will be performed and reported as an integral part of risk management.

38. The following table shows the rating floor for each eligible security, issuer counterparty or their credit support providers.[8] The credit rating that is compared to the rating floor is the average credit rating[9] available from the four agencies comprising the Bloomberg Composite Credit Ratings,[10] namely, Standard & Poor's (S&P), Moody's,[11] Fitch and DBRS. The security, issuer, counterparty or their credit support provider must be rated by at least two of the following rating agencies: S&P, Moody's or Fitch.

Table 1
Asset class rating floors

	Credit rating floors
Money market instruments • Demand deposits • Time deposits • Certificates of deposit • Commercial papers • Treasury bills	A-/A3
• Money market funds (constant net asset value, short-term funds only)	AAA/Aaa
• Repo/reverse repo	A-/A3

[7] Credit risk refers here to the potential loss arising from Treasury's asset and liability management operations (including counterparty risk to counterparties in derivatives transactions), as opposed to the potential loss resulting from the Fund's core business, consisting of its programme of loans and grants.
[8] Where appropriate, the ratings of credit support providers may be used as an alternative to the relevant ratings of issuers and counterparties.
[9] At its 137th session, the Executive Board decided that the second-best rating rule will be replaced by a rating floor requirement based on the average of available ratings from S&P, Moody's or Fitch once Treasury systems are in place for its implementation. IFAD shall use the average of the ratings available from any of the four rating agencies comprising the Bloomberg Composite Credit Ratings published by Bloomberg, subject to the requirement for a minimum of two credit ratings from S&P, Moody's or Fitch.
[10] The Bloomberg Composite Credit Rating is an equally weighted blend of the ratings of a security by Moody's, S&P, Fitch and DBRS, as published by Bloomberg, where the ratings of the rating agencies for the same security are evenly weighted and calculated by taking the average of the existing ratings, rounded down to the lower rating in case the composite is between two ratings.
[11] For Moody's ratings, the equivalent rating scale shall apply.

Currency instrument Spot foreign exchange	A-/A3
Fixed-income securities: both nominal and inflation linked • Government and government agency fixed-income bonds at national or subnational level	A-/A3
• Supranational bonds	A-/A3
• Asset-backed securities (only government-, agency-issued or guaranteed)	AAA/Aaa
• Covered bonds	AAA/Aaa
• Corporate bonds	A-/A3
• Bonds issued or guaranteed by financial institutions and depository banks	A-/A3
• Callable bonds	A-/A3
• Inflation-linked bonds	A-/A3
Derivatives: for hedging purposes only • Forward foreign exchange • Foreign exchange swaps • Cross currency swaps • Forward interest rate agreements • Interest rate swaps • Credit default swaps • Exchange-traded futures and options • Over-the-counter options	A-/A3 counterparty rating
Repurchase and reverse-repurchase transactions	A-/A3 counterparty rating

39. The share of fixed-income securities and issuers in rating category AA- and above should be at least 60 per cent.

Counterparty risk for specific investment transactions

40. Counterparty risk arising from securities trading[12] is managed through the establishment of a minimum rating for trading counterparties.[13] Counterparties for securities trading purposes shall be rated at minimum investment grade by at least one of the following: S&P, Moody's or Fitch.[14]

41. Counterparties for the execution of futures and options on exchanges or clearing houses may be rated non-investment grade by any of the following: S&P, Moody's or Fitch, provided that the Fund's exposure to any such counterparties is capped on a case-by-case basis at an appropriate limit approved by the President.

42. Counterparties for operational cash and cash management purposes (primarily demand deposits with depository banks) may be rated non-investment grade by any of the following: S&P, Moody's or Fitch, provided that the Fund's exposure to any such counterparties is capped on a case-by-case basis at an appropriate limit approved by the President.

Country risk

43. Country risk is a collection of risks associated with investing in a particular country. These risks include political risk and sovereign risk. Country risk is managed for all investments through the establishment of maximum country exposure concentrations within the guidelines of every individual investment portfolio. Country exposures are monitored on a daily basis.

[12] Securities trading consists of the outright purchase or sale of fixed income securities and of repo or reverse repo transactions.
[13] Trading counterparties include dealers and brokers for both investment and borrowing transactions, and exclude authorized exchanges and clearing houses.
[14] This minimum credit rating requirement applies to all transactions undertaken under delivery-versus-payment settlement terms, regardless of the remaining exposure limit available on the counterparty. Delivery versus payment is a securities settlement mechanism requiring that securities are only delivered to the counterparty once payment has been made.

Currency risk

44. IFAD manages the currency risk that results from any mismatch between the currency composition of its assets and the currency composition of its liabilities.

45. The risk is managed by monitoring any mismatches and implementing a realignment strategy if any deviations become significant.

Interest rate risk

46. Interest rate risk is monitored on the overall investment portfolio and on the individual portfolios. Risk measurements include duration, value at risk and conditional value at risk.

Liquidity risk

47. Sufficient liquidity must be readily available to ensure IFAD's ability to meet its disbursements, debt and other obligations.

Legal risk

48. The President will ensure that any legal risk is assessed by the Office of the General Counsel.

49. As is standard in international financial markets, any hedging and collateral arrangements related to derivatives with IFAD's counterparts may be subject to national laws. Disputes may be referred to an appropriate resolution mechanism, as agreed between IFAD and the relevant party. Management will conduct negotiations with the assistance of outside counsel, if appropriate, in the relevant jurisdictions.

Operational risk

50. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The President will ensure that operational risk is addressed by establishing a clearly defined framework of responsibility and accountability within IFAD's financial structure.

Integrity risk

51. IFAD's Anti-Money Laundering and Countering the Financing of Terrorism Policy seeks to reduce the risk of IFAD conducting business with counterparties that are on a sanctions list adopted by IFAD, or that have been involved in money laundering, financing terrorism or related activities. This risk is monitored to reduce IFAD's exposure to serious reputational damage, financial loss or legal liability.

52. The President will ensure the screening of all potential counterparties and the ongoing monitoring of existing counterparties.

B. Performance reporting

53. The overall portfolio and benchmark performance in local currency terms will be reported semi-annually to the Executive Board. The report will include comparative performance figures for the previous quarters and previous year.

C. Monitoring of compliance

54. The President will ensure that the relevant organizational unit monitors the external and internal investment managers' compliance with IFAD's investment guidelines on a daily basis. Should a compliance breach arise, it will be analysed and any necessary action taken.

V. Asset allocation and tranching of portfolio

55. As the investments are fully committed, management of investments and their risk tolerance need to be linked to, and guided by, IFAD's short-term liquidity needs.

56. The liquidity portfolio is subdivided into tranches. This helps guide the management of investments with respect to IFAD's paramount considerations of security and liquidity.

57. IFAD's liquidity portfolio is therefore split into tranches, as follows:

(i) **Transaction tranche**

Purpose. To facilitate near-term payments for IFAD's operations or administrative expenditures, to guarantee that enough cash and cash equivalents are available to meet immediate payment obligations.

Size. Based on projected funds needed immediately for IFAD's operations or administrative expenditures.

Investments. Cash balances and the most liquid instruments that count as cash equivalents

(ii) **Operational tranche**

Purpose. The operational tranche will replenish the transaction tranche as and when necessary and receives excess cash from the transaction tranche. It guarantees that enough instruments[15] are available that can easily be translated into cash. Together with the transaction tranche it ensures that expected and unforeseen short-term liquidity requirements are met.

Size. Together with the transaction tranche, the operational tranche is targeted to hold, at a minimum, the projected gross outflows for three months and a buffer amount based on an assessment of the risk of unforeseen liquidity requirements. If the combined value of these tranches goes below the prescribed level, a plan will be prepared by the Treasury Services Division on when to transfer funds from the investment tranche in light of liquidity needs while taking into consideration market conditions and liquidation costs.

Investments. A combination of short-term and liquid assets. Foremost consideration will be given to capital preservation and the ability to liquidate in a timely manner.

(iii) **Prudential tranche**

Purpose. Funds not needed in the short term and assumed to be disbursed over the medium term. This tranche allows IFAD to optimize prudently the total expected returns on its investments.

Size. The funds that remain in the liquidity portfolio after allocation to the transaction tranche and the operational tranche. The size of the prudential tranche needs to be assessed as relatively stable to prevent liquidation and allow for an optimal strategic asset allocation.

Investments. All investments as allowed in the IPS.

58. Each tranche is allocated a specific component of the IPS's risk tolerance level and will be measured against respective benchmarks as per the investment guidelines.

[15] Such instruments include investments transacted through the World Bank's Reserve Advisory and Management Partnership (RAMP) programme.