Investing in rural people

**Executive Board**
141st Session
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# Report on IFAD's investment portfolio for 2023

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**FOR: INFORMATION**

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

**Technical questions:**

**Gulnara Yunusova**
Director and Treasurer
Treasury Services Division
e-mail: g.yunusova@ifad.org

# Executive summary

1. Despite the persistence of a volatile and uncertain environment in 2023, IFAD's liquidity portfolio finished the year on a positive footing. The portfolio delivered broad-based gains as it is well diversified across high credit quality securities, which perform strongly during times of risk-off sentiment. Moreover, the portfolio is positioned to withstand market turmoil given its low interest rate sensitivity.

2. During 2023, the net rate of return[1] for IFAD's investment portfolio was 4.53 per cent, with a net investment income of US$52 million. Overall, the portfolio continued to outperform the benchmark. The prudential tranche in United States dollars outperformed the benchmark by 0.44 per cent (versus outperformance by 0.12 per cent in 2022); the prudential tranche in euros outperformed the benchmark by 0.65 per cent (versus underperformance by 0.13 per cent in 2022).

3. Buoyed by expectations of more accommodative monetary policy from leading central banks over the course of the year, credit spreads for supranationals, sovereigns and government agencies narrowed, providing a boost to the performance of the portfolio.

4. The value of the investment portfolio in United States dollar terms increased by US$160 million from US$1.445 billion as at 31 December 2022 to US$1.605 billion as at 31 December 2023. The main drivers for the increase were positive net flows of US$103 million and investment income of US$52 million (see table 2).

5. The portfolio's conditional value at risk (CVaR) increased from 0.82 to 1.73 per cent in 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 31 December 2023 are shown below:

   - The portfolio duration increased from 0.20 to 0.33 years; and
   - The fixed-income investments were fully allocated in high investment-grade instruments rated A- and above (the share of AA- and above is 88.55 per cent).

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

Table 1a
**Key portfolio changes in 2023**

| | *Q4 2023* | *Q4 2022* |
|---|---|---|
| Portfolio size (thousands of US$) | 1 605 359 | 1 445 452 |
| Net investment income (thousands of US$) | 51 706 | 888 |
| Net rate of return (%) | 4.53 | 0.28 |
| Duration | 0.33 | 0.20 |
| CVaR, historical 1-year (%) | 1.73 | 0.82 |

7. IFAD's Treasury Services Division (Treasury) successfully maintained the portfolio's resilience throughout the central banks' tightening cycle and challenging market conditions. It achieved a net portfolio performance of positive 4.53 per cent, amid the steepest yield curve inversion in decades for both the United States dollar and the euro areas. The portfolio outperformed the benchmark by benefiting from higher yields generated from new short-term investments, a roll-down strategy and conservative asset allocation towards high-quality liquid assets within the supranationals, sovereigns and government agencies category. The impact of yield

[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.

increases on existing and longer-dated portfolio positions remained limited, given its short duration strategy, which is also implemented through short-term investments and interest rate derivatives used for hedging purposes. Going forward, IFAD will remain cautious about the timing of central bank policy reversals and downside risks related to a potential economic slowdown.

# Report on IFAD's investment portfolio for 2023

## I. Market conditions

1. Despite divergence among leading central banks on the expected timing of interest rate cuts, investor optimism that global borrowing costs are heading lower led to credit spread tightening for supranationals, sovereigns and government agencies, and provided compelling trading opportunities supportive of steering IFAD's liquidity portfolio to a position of strength in 2023.

2. Growing confidence that the Federal Reserve Board would be unlikely to increase interest rates was further bolstered by the cooling inflation rate, which fell more than expected towards year-end. The Federal Reserve Board kept interest rates on hold at a 22-year high of between 5.25 and 5.50 per cent and signalled 75 basis points of interest rate cuts for 2024, amid signs of more moderate United States growth and slowing consumer spending while the labour market remains strong, raising hopes that the United States economy is set for a cyclical slowdown that avoids a recession. Even as Fitch downgraded the United States from AAA to AA+ during the second half of the year, the Government managed to avoid a federal shutdown after both the House of Representatives and the Senate agreed on a short-term funding deal.

3. Whereas the futures markets continued pricing in rate cuts, the European Central Bank (ECB) President reaffirmed that borrowing costs would remain at record highs despite lower inflation expectations as the ECB has forecast consumer price growth to continue declining gradually over the course of the year. The deteriorating outlook for the region was reflected by the Flash Manufacturing Purchasing Managers' Index for the eurozone, which indicated that businesses are still in contractionary territory. The ECB kept its key interest rate at 4 per cent and unveiled plans for a small policy change to phase out its last surviving bond-buying scheme that formed part of a legacy of the COVID-19 pandemic. Although the eurozone inflation rate slowed to 2.4 per cent, close to the ECB's 2 per cent target, a rebound may be expected due to some tax changes in addition to a lower basis of year-on-year comparison.

4. In a change that was widely viewed by markets as a step towards policy normalization, the Bank of Japan – the last major central bank holding out on ultra-low yields – tweaked its monetary policy during the year by maintaining its target for 10-year Japanese government bonds at 0 per cent, but effectively widened the band and modified its bond yield control by redefining 1 per cent as an upper bound with room for allowance rather than a rigid cap.

5. IFAD's liquidity portfolio is subject to general market volatility, which has spiked throughout the year due to the banking sector turmoil and the uncertainty around the monetary policy rate hike path with the disinflation process remaining uneven and the economic growth outlook deteriorating. The portfolio remained resilient against market distortions due to its large share in high-quality liquid assets and low interest rate sensitivity. Considering the outlook, a defensive stance is warranted given the elevated uncertainty in markets and the higher levels of volatility expected. IFAD's Treasury will continue to manage the liquidity portfolio defensively to keep the portfolio resilient to downside shocks, emphasizing capital preservation rather than seeking extra returns at the expense of the overall risk profile of the portfolio.

# 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 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.

7. 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 31 December 2023**

| *Tranche* | *%* | *US$ millions* |
|---|---|---|
| Transaction | 2.56 | 41.11 |
| Operational | 26.91 | 432.03 |
| Prudential | 70.53 | 1 132.23 |
| in EUR | 22.62 | 363.09 |
| in US$ | 47.91 | 769.13 |
| **Total** | **100.0** | **1 605.36** |

## 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 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.

9. 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.

10. 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 agency bonds, corporate bonds and asset-backed securities in the impact bond market.

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

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

# III. Portfolio allocation

12. During 2023, the value of the investment portfolio rose by US$160 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 2023.

Table 2
**Drivers of IFAD's investment portfolio in 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 | 82 | 37 624 | 14 007 | (7) | 51 706 |
| Net flows[e] | 58 059 | 159 470 | (114 084) | 19 | 103 464 |
| Foreign exchange movements | 412 | - | 4 325 | - | 4 737 |
| **Closing balance (31 December 2023)** | **472 465** | **769 131** | **363 750** | **12** | **1 605 359** |

[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

13. Gross investment income in 2023 amounted to positive US$53.23 million, with net investment income inclusive of investment, custody and advisory fees as well as bank charges, totalling positive US$51.71 million. Table 3 presents a summary of investment income for 2023, with a breakdown by portfolio, where higher interest rates have contributed to higher interest income.

Table 3
**Breakdown of IFAD's investment income by portfolio in 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] | - | 34 551.9 | 9 227.1 | - | 43 779.0 |
| Realized market gains/(losses) | 57.1 | (1 637.0) | 1 211.1 | - | (368.9) |
| Unrealized market gains/(losses) | 33.0 | 5 681.5 | 4 098.8 | - | 9 813.3 |
| **Investment income before fees** | **90.1** | **38 596.4** | **14 537.0** | **-** | **53 223.5** |
| Investment manager fees | (3.4) | - | - | - | (3.4) |
| Custody fees | (4.9) | (217.6) | (62.9) | (7.0) | (292.4) |
| Bank charges | - | - | - | - | - |
| Advisory and other investment-related fees | - | (754.6) | (467.2) | - | (1 221.8) |
| **Investment income after fees** | **81.8** | **37 624.2** | **14 006.9** | **(7.0)** | **51 705.8** |

[5] Inclusive of interest paid on derivatives.

# V. Rate of return

14. As reported by the custodian, Northern Trust, IFAD's investment portfolio generated a gross positive return of 4.63 per cent in 2023, with the prudential tranche in United States dollars generating a gross positive return of 5.49 per cent, outperforming the benchmark (ICE Bank of America BofA 0-1 Year United States Treasury Index) by 0.44 per cent. The prudential tranche in euros generated a gross positive return of 3.26 per cent during that same period, with an excess return of 0.65 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 positive 4.53 per cent.[6]

Table 4
**Quarterly performance in 2023**
(Percentages in local currency terms)

| | *Quarterly performance in 2023 (year to date [YTD])* | | | | *Gross excess return as at 31/12/2023 (YTD)* |
|---|---|---|---|---|---|
| | *First quarter* | *Second quarter* | *Third quarter* | *Fourth quarter* | |
| **Gross rate of return** | | | | | |
| Transaction and operational tranches | 0.89 | 2.09 | 3.25 | 4.51 | n.a. |
| Prudential tranche in US$ | 1.18 | 2.39 | 3.62 | 5.49 | 0.44 |
| Prudential tranche in EUR | 0.56 | 2.34 | 2.16 | 3.26 | 0.65 |
| **Gross rate of return** | **0.88** | **2.24** | 3.10 | 4.63 | **n.a.** |
| **Net rate of return** | **0.87** | **2.17** | 3.03 | 4.53 | **n.a.** |

Table 5
**IFAD portfolio net performance rolling average as at 31 December 2023**
(Percentages in local currency terms)

| | *YTD* | *One year* | *Three years* | *Five years* |
|---|---|---|---|---|
| Portfolio performance | 4.53 | 4.53 | 1.64 | 1.52 |

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

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

| | *2023* | | *2022* | | *2021* | | *2020* | | *2019* | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Actual* | *Benchmark* | *Actual* | *Benchmark* | *Actual* | *Benchmark* | *Actual* | *Benchmark* | *Actual* | *Benchmark* |
| Transaction and operational tranches | 4.48 | - | 0.61 | - | (0.3) | - | 0.1 | 0.1 | 1.31 | 1.31 |
| Prudential tranche in US$ | 5.35 | 5.05 | 0.80 | 0.68 | 0.59 | 0.06 | 1.14 | 1.12 | 2.73 | 1.11 |
| Prudential tranche in EUR | 3.14 | 2.61 | (1.14) | (1.01) | 0.09 | (0.63) | 0.13 | 0.16 | 1.22 | 0.17 |
| Global strategic portfolio | - | - | - | - | - | - | - | - | 1.93 | 0.62 |
| Global government bonds | - | - | - | - | - | - | - | - | - | - |
| Global credit portfolio | - | - | - | - | - | - | - | - | 3.65 | 4.72 |
| **Gross rate of return** (excluding fees) | **4.63** | **-** | **0.45** | **-** | **0.28** | **-** | **0.67** | **-** | **2.22** | **-** |
| **Net rate of return** (including all fees) | **4.53** | **-** | **0.28** | **-** | **0.16** | **-** | **0.55** | **-** | **2.13** | **-** |

[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

16. Table 7 shows the composition of the investment portfolio by investment instrument – following Standard & Poor's asset classification – as at 31 December 2023.

Table 7
**Investment portfolio by instrument as at 31 December 2023**

| | *Actual portfolio allocation* | |
|---|---|---|
| | *Millions of US$* | *Actual portfolio allocation (%)* |
| Sovereigns/supranationals/agencies | 798.11 | 49.72 |
| Cash | 513.53 | 31.99 |
| Financial institutions | 223.86 | 13.94 |
| Local governments and sovereign-sponsored securitizations | 27.71 | 1.73 |
| Derivatives | 25.47 | 1.59 |
| Corporates | 16.68 | 1.04 |
| **Total** | **1 605.36** | **100.00** |

Note: The share of cash held in central banks was 83 per cent.

# 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 2023, the overall portfolio duration was 0.33 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)

| | *31 December 2023* | | *31 December 2022* | |
|---|---|---|---|---|
| | *Portfolio* | *Benchmark* | *Portfolio* | *Benchmark* |
| Prudential tranche in EUR | 0.29 | 0.43 | 0.37 | 0.45 |
| Prudential tranche in US$ | 0.54 | 0.45 | 0.11 | 0.46 |
| **Total portfolio** (including operational cash) | **0.33** | **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

19. 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.

20. The maximum risk level for the IFAD portfolio is stated in the IPS as a CVaR of 3.0 per cent. In December 2023, the CVaR for the overall portfolio stood at 1.73 per cent, in compliance with the IPS maximum risk level and higher than the 0.82 per cent shown in December 2022.[7]

[7] Starting in July 2023, the methodology for calculating conditional value at risk was changed from historical 1-year simulation to Monte Carlo 1-year simulation.

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

| | *31 December 2023* | *31 December 2022* |
|---|---|---|
| Prudential tranche in EUR | 1.29 | 1.79 |
| Prudential tranche in US$ | 2.12 | 1.10 |
| **Total portfolio** (including cash) | **1.73** | **0.82** |

Note: 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 "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).[8] 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 2023.

Table 10a
**Investment portfolio composition by credit rating as at 31 December 2023**
(In percentages, including cash and swaps)

| | *Transaction and operational tranches* | *Prudential tranche in US$* | *Prudential tranche in EUR* | *Total* |
|---|---|---|---|---|
| AAA | 0.03 | 23.66 | 2.32 | 26.01 |
| AA+ | 0.11 | 4.72 | 0.00 | 4.82 |
| AA | 0.01 | 5.24 | 3.81 | 9.05 |
| AA- | 0.01 | 10.72 | 10.03 | 20.76 |
| A+ | 0.00 | 1.06 | 3.56 | 4.62 |
| A | 0.00 | 0.66 | 1.51 | 2.16 |
| A- | 0.00 | 0.00 | 1.11 | 1.11 |
| Cash[9] | 29.75 | 0.00 | 0.08 | 29.84 |
| Swaps | 0.00 | 0.96 | 0.66 | 1.62 |
| **Total** | **29.91** | **47.01** | **23.08** | **100.00** |

23. 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 31 December 2023, this share stood at 88.55 per cent, as shown in table 10b.

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

Table 10b
**Investment portfolio composition by credit rating as at 31 December 2023**
(In percentages, excluding cash and swaps)

| | *Transaction and operational tranches* | *Prudential tranche in US$* | *Prudential tranche in EUR* | *Cumulative total* |
|---|---|---|---|---|
| AAA | 0.00 | 34.63 | 3.40 | 38.03 |
| AA+ | 0.00 | 6.90 | 0.00 | 44.94 |
| AA | 0.00 | 7.67 | 5.58 | 58.18 |
| AA- | 0.00 | 15.70 | 14.68 | 88.55 |
| A+ | 0.00 | 1.44 | 5.21 | 95.20 |
| A | 0.00 | 0.96 | 2.21 | 98.37 |
| A- | 0.00 | 0.00 | 1.63 | 100.00 |
| **Total** | **0.00** | **67.30** | **32.70** | **100.00** |

## D. Currency risk: currency composition analysis

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

25. As at 31 December 2023, projections show that the Fund’s currency composition was adequate to cover the 24-month projected currency outflows.

Table 11
**Currency composition of the next 24-month projected cash flows as at 31 December 2023**
(Thousands of United States dollar equivalents)

| *Category* | *CNY Group* | *EUR Group* | *GBP Group* | *JPY Group* | *USD Group* | *Grand total* |
|---|---|---|---|---|---|---|
| **Inflows** | | | | | | |
| Cash | 154 | 77 823 | 4 937 | 34 | 384 939 | 467 887 |
| Investments | 13 | 363 103 | 4 | - | 774 203 | 1 137 323 |
| Contributions | 46 688 | 218 853 | 46 903 | 22 883 | 256 263 | 591 589 |
| Projected reflows | - | 133 041 | 6 809 | - | 604 500 | 744 349 |
| Debt drawdowns | - | 125 465 | - | - | 203 333 | 328 798 |
| **Total assets** | **46 855** | **918 284** | **58 652** | **22 917** | **2 223 238** | **3 269 947** |
| **Outflows** | | | | | | |
| Projected disbursements | (133) | (559 949) | (89) | (82) | (1 348 084) | (1 908 337) |
| Projected operating expenses | - | (48 626) | - | - | (315 792) | (364 417) |
| Debt repayments and interests | - | (132 617) | - | - | (74 672) | (207 289) |
| **Total commitments** | **(133)** | **(741 191)** | **(89)** | **(82)** | **(1 738 548)** | **(2 480 044)** |
| **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

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 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, and it is still being implemented.

27. As at 31 December 2023, the minimum liquidity requirement (MLR) was US$1,098 million.[10]

28. IFAD's liquidity portfolio net asset value (NAV) was US$1,605.36 million and the stressed NAV US$1,408 million, after liquidity haircut of 12.28 per cent, which was above the projected MLR of US$1,098 million by a US$310 million buffer. The MLR ratio was 128 per cent (versus 119 per cent at the end of December 2022).

# VIII. External investment managers

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

31. 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 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 liaises with IFAD's custodian, Northern Trust, and IFAD for compliance, performance and risk-reporting purposes. As at 31 December 2023, the market value of the IFAD ASMCS Trust Fund portfolio stood at US$90.01 million, with a positive 7.83 per cent gross rate of return in 2023 (versus its benchmark of 8.04 per cent).[11] The historical value at risk at a 95 per cent confidence level stood at 6.37 per cent and effective duration at 3.38 years as at 31 December 2023, as reported by Payden & Rygel.

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

| | *2023* | | *Trailing three years* | | *Trailing five years* | |
|---|---|---|---|---|---|---|
| | *Actual* | *Benchmark* | *Actual* | *Benchmark* | *Actual* | *Benchmark* |
| IFAD ASMCS Trust Fund | 7.83 | 8.04 | (3.94) | (3.59) | (0.09) | (0.03) |

33. As at 31 December 2023, 71.90 per cent of the portfolio was allocated in credit bonds, as shown in table 13.

[10] Financial projections were last updated as of 30 September 2023.The reported MLR is calculated using projected data forward looking 12 months from Dec 31st 2023.
[11] IFAD customized benchmark, "ASMCS Global Agg Custom Index".

Table 13
**ASMCS portfolio by instrument as at 31 December 2023**

| | *Actual portfolio allocation* | |
|---|---|---|
| | *Millions of US$* | *Actual portfolio allocation (%)* |
| Credit | 64.71 | 71.90 |
| Government | 19.16 | 21.28 |
| Cash | 2.27 | 2.52 |
| Money markets | 2.10 | 2.33 |
| Agencies | 1.07 | 1.19 |
| Quasi-sovereign | 0.29 | 0.33 |
| Non-corporate credit | 0.24 | 0.26 |
| Emerging markets | 0.18 | 0.20 |
| **Total** | **90.01** | **100.00** |

34. The World Bank RAMP investment portfolio stood at US$229 million as at 31 December 2023. As reported by the World Bank, the portfolio generated positive 5.27 per cent of gross return in 2023, outperforming its benchmark by 0.22 per cent (ICE BofA 0-1 Year United States Treasury Index).

Table 14
**Historical gross annual performances versus benchmarks**

| | *2023* | | *Rolling one year* | | *Inception to Date* | |
|---|---|---|---|---|---|---|
| | *Actual* | *Benchmark* | *Actual* | *Benchmark* | *Actual* | *Benchmark* |
| IFAD World Bank RAMP Investment portfolio | 5.27 | 5.05 | 5.27 | 5.05 | 1.96 | 1.83 |

35. The historical value at risk at 95 per cent confidence level stood at 0.46 per cent and effective duration at 0.49 years, as reported by IFAD custodian.

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

Table 15
**World Bank RAMP investment portfolio by instrument as at 31 December 2023**

| | *Millions of US$* | *Actual portfolio allocation (%)* |
|---|---|---|
| Sovereign government | 172.05 | **75.00** |
| Agency | 38.08 | **16.60** |
| Covered bonds | 7.11 | **3.10** |
| Supra/multilaterals | 5.28 | **2.30** |
| Sovereign guaranteed | 5.05 | **2.20** |
| Cash and cash equivalent | 1.84 | **0.80** |
| **Total** | **229.41** | **100.00** |

Table 16
**World Bank RAMP investment portfolio risk contribution as at 31 December 2023**

| | *Portfolio duration (months)* | *Benchmark duration (months)* |
|---|---|---|
| Interest rates | 11.3 | 10.4 |
| 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.[12]

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