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Report on IFAD's investment portfolio for the first semester of 2024

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

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Executive summary

1. In the first half of 2024, the fixed-income market experienced significant movements influenced by shifting economic conditions, central bank policies and global geopolitical events. The Federal Reserve kept rates stable amid mixed signals and persistent inflation, while the European Central Bank (ECB) lowered rates by 25 basis points due to passive eurozone inflation, and the Bank of Japan maintained an accommodative policy to stimulate inflation and economic activity. Inflation varied across regions, moderating in the United States but staying above target, and remained subdued in Europe, prompting stimulus discussions. European yields generally decreased due to growth concerns, and Japanese yields remained low.

2. United States dollar sovereigns, supranationals and agencies (SSA) spreads generally tightened amid ongoing global economic uncertainties as the demand for high-quality assets like SSA bonds increased. The Federal Reserve's monetary policy and expectations of future rate cuts influenced investor behaviour, with many seeking to lock in yields before cuts in rates. Euro-denominated SSA bonds also experienced spread tightening, due to steady demand for high-quality assets in the eurozone and the influence of ECB policies maintaining a relatively stable interest rate environment.

3. During the first half of 2024, the net rate of return[1] for IFAD's investment portfolio was positive 2.56 per cent,[2] with a net investment income of positive US$44 million. Overall, the portfolio continued to outperform the benchmark. The prudential tranche in United States dollars outperformed the benchmark by 0.24 per cent (versus outperformance by 0.44 per cent in 2023); the prudential tranche in euros outperformed the benchmark by 1.35 per cent (versus outperformance by 0.65 per cent in 2023).

4. The value of the investment portfolio in United States dollar terms increased by US$247 million from US$1.605 billion as at 31 December 2023 to US$1.852 billion as at 30 June 2024. The main drivers for the increase were positive net flows of US$209 million and investment income of US$44 million (see table 2).

5. The portfolio's conditional value at risk (CVaR) decreased from 1.73 to 0.65 per cent in the first half of 2024.[3] 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 of 30 June 2024 are shown below:

   - The portfolio duration decreased from 0.33 to 0.18 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 91.44 per cent).

6. 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] All performance indicators on the first half of 2024 are year to date and not annualized.
[3] The CVaR for IFAD's liquidity portfolio is computed as one-year CVaR at a 95 per cent confidence level, as defined in the IPS 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 2024

	H1 2024	*Q4 2023*
Portfolio size (thousands of US$)	1 852 016	1 605 359
Net investment income (thousands of US$)	43 699	51 706
Net rate of return (%)	2.56	4.53
Duration	0.18	0.33
CVaR, historical 1-year (%)	0.65	1.73

7. IFAD's Treasury successfully maintained the portfolio's resilience throughout ongoing global economic uncertainties, monetary policy expectations and challenging market conditions. It achieved a net portfolio performance of 2.56 per cent, amid the continued yield curve inversion for both the United States and the euro area. The portfolio outperformed the benchmark by benefiting from short-term yields staying higher with central banks hesitating to cut rates, and conservative asset allocation towards high-quality liquid assets within the SSA category. The impact of yield decreases on existing and longer-dated portfolio positions remained limited, given IFAD Treasury's short duration strategy, which is also implemented through short-term investments and interest rate derivatives used for hedging purpose. 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 the first semester of 2024

I. Market conditions

1. The first half of 2024 saw significant movements in the fixed-income market, driven by evolving economic conditions, central bank policies and global geopolitical events. Central banks, including the Federal Reserve (Fed), the European Central Bank (ECB) and the Bank of Japan, continued to play a crucial role in shaping the fixed-income landscape. The Fed maintained a cautious stance, keeping rates relatively stable in response to mixed economic signals and persistent inflationary pressures. The ECB, on the other hand, based on the eurozone inflation outlook, lowered interest rates by 25 basis points after nine months of holding rates steady. The Bank of Japan maintained a more accommodative monetary policy approach, aiming to spur inflation and economic activity.

2. Inflation remained a dominant theme, with varying impacts across different regions. In the United States, inflation showed signs of moderation but remained above the Fed's target, influencing bond yields and investor sentiment. European inflation was more subdued, prompting discussions of potential stimulus measures.

3. United States Treasury yields experienced volatility, with the 10-year yield fluctuating between 3.5 per cent and 4.0 per cent. This movement reflected market reactions to economic data releases, Fed policy signals and geopolitical uncertainties. European government bonds saw yields generally decrease as economic growth concerns took precedence. Japanese government bonds continued to offer low yields, consistent with the Bank of Japan's policies.

4. The sovereigns, supranationals and agencies bond market was characterized by strong issuance activity, particularly in the green and environmental, social and governance (ESG) segments, driven by high investor demand for safe, high-quality assets amid an uncertain global economic backdrop. Central bank policies and economic indicators were key factors influencing market dynamics.

5. IFAD's liquidity portfolio is subject to general market volatility, due to continued vigilance on inflation trends and central bank actions. Economic data on signs of sustained growth or potential slowdowns alongside central bank communications and geopolitical developments will remain key drivers of market sentiment and fixed-income security performance. The portfolio remained resilient against market volatility 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:[4]

- **Transaction tranche.** Facilitates near-term payments for IFAD's operations and 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

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

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 tranches as at 30 June 2024

Tranche	*%*	*US$ millions*
Transaction	4.23	78.34
Operational	40.53	750.63
Prudential	55.24	1 023.05
in EUR	15.15	280.51
in US$	40.09	742.54
Total	**100.00**	**1 852.02**

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,[5] 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 ESG securities, including: supranational, sovereign and government agency bonds, corporate bonds and asset-backed securities in the impact bond market.

11. Throughout the first half of 2024, all new securities acquired for IFAD's investment portfolio were fully compliant with the aforementioned ESG principles.

III. Portfolio allocation

12. During the first half of 2024, the value of the investment portfolio rose by US$247 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 the year.

[5] 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 2024
(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 2023)	**472.46**	**769.13**	**363.75**	**0.01**	**1 605.36**
Net investment income	15.81	19.44	8.46	(0.00)	43.70
Net flows[e]	342.53	(46.03)	(87.31)	0.00	209.20
Foreign exchange movements	(1.85)	(0.00)	(4.39)	(0.00)	(6.24)
Closing balance (30 June 2024)	**828.96**	**742.54**	**280.51**	**0.01**	**1 852.02**

[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 the first half of 2024 amounted to positive US$45.17 million, with net investment income inclusive of investment, custody and advisory fees as well as bank charges, totalling positive US$43.70 million. Table 3 presents a summary of investment income in the first half, 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 H1 2024
(Thousands of United States dollars equivalent)

	Transaction and operational tranches	*Prudential tranche in US$*	*Prudential tranche in EUR*	*Other*	*Total*
Interest and coupon income[6]	13 389	20 629	10 185	0	44 203
Realized market gains/(losses)	2 659	(674)	(1 121)	0	864
Unrealized market gains/(losses)	14	279	(195)	0	98
Investment income before fees	**16 062**	**20 233**	**8 869**	**0**	**45 165**
Investment manager fees	(5)	-	-	-	(5)
Custody fees	(4)	(56)	(48)	(5)	(112)
Bank charges	(80)	-	-	-	(80)
Advisory and other investment-related fees	(165)	(741)	(363)	-	(1 269)
Investment income after fees	**15 809**	**19 436**	**8 459**	**(5)**	**43 699**

V. Rate of return

14. As reported by the custodian, Northern Trust, IFAD's investment portfolio generated a gross positive return of 2.63 per cent in the first half of 2024, with the prudential tranche in United States dollars generating a gross positive return of 2.66 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 2.99 per cent during that same period, with an excess return of 1.35 per cent against its benchmark (ICE BofA 0-1 Year AAA-AA

[6] Inclusive of interest paid on derivatives.

Euro Government Index). The net rate of return for the entire investment portfolio was positive 2.56 per cent.[7]

Table 4
Quarterly performance in H1 2024
(Percentages in local currency terms)

	Quarterly performance in H1 2024 (year to date [YTD])		*Gross excess return as at 30/06/2024 (YTD)*
	First quarter	*Second quarter*	
Gross rate of return			
Transaction and operational tranches	1.22	2.49	n.a.
Prudential tranche in US$	1.30	2.66	0.24
Prudential tranche in EUR	1.10	2.99	1.35
Gross rate of return	**1.23**	**2.63**	**n.a.**
Net rate of return	**1.19**	**2.56**	**n.a.**

Table 5
IFAD portfolio net performance rolling average as at 30 June 2024
(Percentages in local currency terms)

	YTD	*One year*	*Three years*	*Five years*
Portfolio performance	2.56	4.93	2.47	1.73

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)

	H1 2024		*2023*		*2022*		*2021*		*2020*	
	Actual	*Benchmark*	*Actual*	*Benchmark*	*Actual*	*Benchmark*	*Actual*	*Benchmark*	*Actual*	*Benchmark*
Transaction and operational tranches	2.45	-	4.48	-	0.61	-	(0.3)	-	0.1	0.1
Prudential tranche in US$	2.58	2.42	5.35	5.05	0.80	0.68	0.59	0.06	1.14	1.12
Prudential tranche in EUR	2.88	1.65	3.14	2.61	(1.14)	(1.01)	0.09	(0.63)	0.13	0.16
Global strategic portfolio	-	-	-	-	-	-	-	-	-	-
Global government bonds	-	-	-	-	-	-	-	-	-	-
Global credit portfolio	-	-	-	-	-	-	-	-	-	-
Gross rate of return (excluding fees)	**2.63**	**-**	**4.63**	**-**	**0.45**	**-**	**0.28**	**-**	**0.67**	**-**
Net rate of return (including all fees)	**2.56**	**-**	**4.53**	**-**	**0.28**	**-**	**0.16**	**-**	**0.55**	**-**

VI. Composition of the portfolio by instrument

16. Table 7 shows the composition of the investment portfolio by investment instrument – following Standard & Poor's asset classification – as at 30 June 2024.

Table 7
Investment portfolio by instrument as at 30 June 2024

	Actual portfolio allocation	
	Millions of US$	*Actual portfolio allocation (%)*
Sovereigns/supranationals/agencies	776.33	41.92
Cash	848.11	45.79
Financial institutions	176.78	9.55
Local governments and sovereign-sponsored securitizations	27.63	1.49
Derivatives	23.15	1.25
Futures initial margin	0.00	0.00
Total	**1 852.02**	**100.00**

Note: The share of cash held in central banks was 81.4 per cent.

[7] To calculate the rate of return on the investment portfolio as a whole and each of its tranches, Northern Trust applies the modified Dietz methodology, which follows market best practices. The methodology is based on a weighted calculation of cash flows and is computed in local currency.

VII. Risk measurements

17. The risk budgeting measures outlined in the IPS – duration and conditional value at risk (CVaR) – are reported on in subsections A and B below. The credit risk and currency risk analyses are reported in subsections C and D, respectively.

A. Market risk: duration

18. Duration is a measure of the sensitivity of the market price of a fixed-income investment to a change in interest rates (expressed as a number of years). As at 30 June 2024, the overall portfolio duration was 0.18 years, compared to 0.33 years reported for the year ended in 2023.

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

	30 June 2024		*31 December 2023*	
	Portfolio	*Benchmark*	*Portfolio*	*Benchmark*
Prudential tranche in EUR	0.22	0.51	0.29	0.43
Prudential tranche in US$	0.37	0.42	0.54	0.45
Total portfolio (including operational cash)	**0.18**	**n.a**	**0.33**	**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 June 2024, the CVaR for the overall portfolio stood at 0.65 per cent, in compliance with the IPS maximum risk level and lower than the 1.73 per cent shown in December 2023.[8]

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

	Actual investment portfolio one-year CVaR (in %)	
	30 June 2024	*31 December 2023*
Prudential tranche in EUR	1.12	1.29
Prudential tranche in US$	1.45	2.12
Total portfolio (including cash)	**0.65**	**1.73**

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 investments to be selected 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 using the second-best rating approach; i.e. the rating that is compared to the rating floor is the second-best rating assigned by Standard & Poor's, Moody's and Fitch.

22. The latest IPS calls for the rating floor for fixed-income securities to be at least A- (except for asset-backed securities, which should be AAA).[9] As shown in table 10a, and in compliance with the IPS guidelines, all fixed-income investments were

[8] CVaR methodology was changed from Historical 1 year to Monte Carlo 1 year starting in July 2023.
[9] The rating that is compared to the rating floor is the second-best rating of three agencies: Standard & Poor's, Moody's and Fitch.

allocated in high investment grade instruments, i.e. AAA, AA+/- and A+/- securities, at the end of June 2024.

Table 10a
Investment portfolio composition by credit rating as at 30 June 2024
(In percentages, including cash and swaps)

	Transaction and operational tranches	*Prudential tranche in US$*	*Prudential tranche in EUR*	*Total*
AAA	0.03	22.29	1.90	24.22
AA+	0.22	3.43	0.00	3.65
AA	0.01	4.47	3.08	7.56
AA-	0.02	7.51	5.46	12.99
A+	0.00	0.82	1.85	2.68
A	0.00	0.55	1.24	1.79
A-	0.00	0.00	0.06	0.06
Cash[10]	44.48	0.21	1.11	45.79
Swaps	0.00	0.81	0.44	1.25
Total	**44.76**	**40.09**	**15.15**	**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 30 June 2024, this share stood at 91.44 per cent, as shown in table 10b.

Table 10b
Investment portfolio composition by credit rating as at 30 June 2024
(In percentages, excluding cash and swaps)

	Transaction and operational tranches	*Prudential tranche in US$*	*Prudential tranche in EUR*	*Cumulative total*
AAA	0.06	42.09	3.59	45.74
AA+	0.42	6.48	0.00	52.64
AA	0.02	8.45	5.82	66.92
AA-	0.04	14.18	10.31	91.44
A+	0.00	1.56	3.50	96.50
A	0.00	1.04	2.35	99.89
A-	0.00	0.00	0.11	100.00
Total	**0.53**	**73.80**	**25.67**	**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 30 June 2024, projections show that the Fund's currency composition was adequate to cover the 24-month projected currency outflows.

[10] The cash in the prudential tranche in United States dollars includes the negative amount of pending trade sales.

Table 11
Currency composition of the next 24-month projected cash flows as at 30 June 2024
(Thousands of United States dollar equivalents)

Category	*CNY Group*	*EUR Group*	*GBP Group*	*JPY Group*	*USD Group*	*Grand total*
Inflows						
Cash	159	145 318	134	30	624 049	769 690
Investments	9	280 516	4	-	747 738	1 028 267
Contributions	69 429	191 560	28 683	36 958	331 709	658 339
Projected reflows	-	157 301	7 660	-	718 328	883 289
Debt drawdowns	-	-	-	-	965 667	965 667
Total assets	**69 597**	**774 695**	**36 481**	**36 988**	**3 387 491**	**4 305 252**
Outflows						
Projected disbursements	(399)	(621 271)	(265)	(224)	(1 526 806)	(2 148 965)
Projected operating expenses	-	(49 698)	-	-	(322 759)	(372 457)
Debt repayments and interests	-	(169 462)	-	-	(105 246)	(274 708)
Total commitments	**(399)**	**(840 431)**	**(265)**	**(224)**	**(1 954 811)**	**(2 796 130)**
Current hedging						
Currency forwards	-	-	-	-	-	-
Total hedging	-	-	-	-	-	-
Deficit	-	**(65 736)**	**-**	**-**	**-**	**-**
Deficit as percentage of commitments	0.00	2.35%	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 is still being implemented.

27. As at 30 June 2024, the minimum liquidity requirement (MLR) was US$1,202 million.[11]

28. IFAD's liquidity portfolio net asset value (NAV) was US$1,852.02 million and the stressed NAV US$1,693.56 million, after a liquidity haircut of 8.56 per cent, which was above the projected MLR of US$1,202 million by a US$491 buffer. The MLR ratio was 141 per cent (versus 128 per cent at the end of December 2023).

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,

[11] Financial projections were last updated as of 31 March 2024.The reported MLR is calculated using projected data looking forward 12 months from 30 June 2024.

performance and risk-reporting purposes. As part of the ongoing transition to the new ASMCS Trust Fund Investment Policy Statement approved by the Executive Board,[12] a dual measuring and reporting of CVaR has been implemented. The new IPS is based on a liability-driven investment approach, and allows for new asset classes and longer duration fixed-income assets, a benchmark that better matches the inherent liabilities of the ASMCS schema, a liability proxy, and has a CVaR risk limit relative to the benchmark rather than an absolute CVaR risk limit. The IPS implementation requires systems that can calculate the new risk measure, a new benchmark formulation and migration of assets to new asset classes. Last year, IFAD Treasury implemented a system that can calculate the risk measure and this year a request for proposals was initiated to select an asset manager that will be able to manage all asset classes and with whom a benchmark formulation will be implemented. The midyear absolute CVaR of the ASMCS portfolio was 10.09 per cent, which represents a breach of the 2017 IPS limit of 8.0 per cent. The legacy risk measure, as agreed by the Executive Board in 2021, is less relevant than the new relative risk CVaR, which at midyear was 1.05 per cent with a limit of 8.0 per cent. With the implementation of the new IPS, the absolute risk levels are expected to rise significantly for both the portfolio and the liability proxy that serves as a benchmark, to be better aligned with the risk levels of the liabilities of the scheme. IFAD Treasury has therefore not instructed the asset manager to decrease the risk levels in the portfolio at this stage, as that change would then have to be reversed and would only create unnecessary transaction costs. In the course of the implementation period, both absolute CVaR and relative CVaR levels will be presented in parallel.

33. As at 30 June 2024, the market value of the IFAD ASMCS Trust Fund portfolio stood at US$88.45 million, with a negative 1.63 per cent gross rate of return in the first half of 2024 (versus its benchmark of negative 1.71 per cent).[13] The historical value at risk at a 95 per cent confidence level stood at 8.06 per cent and effective duration at 3.59 years as at 30 June 2024, as reported by Payden & Rygel.

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

	H1 2024		*Trailing three years*		*Trailing five years*	
	Actual	*Benchmark*	*Actual*	*Benchmark*	*Actual*	*Benchmark*
IFAD ASMCS Trust Fund	(1.63)	(1.71)	(3.50)	(3.36)	(0.90)	(0.93)

34. As at 30 June 2024, 74.93 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 2024

	Actual portfolio allocation	
	Millions of US$	*Actual portfolio allocation (%)*
Credit	66.27	74.93
Government	16.35	18.48
Money markets	2.70	3.05
Cash	1.04	1.18
Agencies	1.03	1.17
Quasi-sovereign	0.65	0.73
Non-corporate credit	0.23	0.26
Emerging markets	0.17	0.20
Total	**88.45**	**100.00**

[12] EB 2021/134/R.53.
[13] IFAD customized benchmark, "ASMCS Global Aggregate Custom Index".

35. The World Bank RAMP investment portfolio stood at US$254 million as at 30 June 2024. As reported by the World Bank, the portfolio generated positive 2.54 per cent of gross return in the first half of 2024, outperforming its benchmark by 0.10 per cent (ICE BofA 0-1 Year United States Treasury Index).

Table 14
Historical gross annual performance versus benchmarks

	H1 2024		*Rolling one year*		*Inception to date*	
	Actual	*Benchmark*	*Actual*	*Benchmark*	*Actual*	*Benchmark*
IFAD World Bank RAMP Investment portfolio	2.54	2.42	5.53	5.33	2.19	2.06

36. The historical value at risk at 95 per cent confidence level stood at 0.49 per cent and effective duration at 0.47 years, as reported by the IFAD custodian.

37. 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 30 June 2024

	Millions of US$	*Actual portfolio allocation (%)*
Sovereign government	170.60	67.20
Agency	68.80	27.10
Covered bonds	5.08	2.00
Supra/multilaterals	11.17	4.40
Cash and cash equivalent[i14]	(1.78)	(0.70)
Total	**253.87**	**100.00**

Table 16
World Bank RAMP investment portfolio risk contribution as at 30 June 2024

	Portfolio duration (months)	*Benchmark duration (months)*
Interest rates	9.5	10.5
Spreads	1.5	-

[14] Net cash and cash equivalents includes cash, money market financial institutions, payables/receivables of unsettled and failed trades and due to/from brokers.

Glossary

Basis points (bps). A common unit of measurement for interest rates and other percentages in finance. One basis point is equal to one hundredth of 1 per cent, or 0.01 per cent, or 0.0001. Bps are used to denote the percentage change in a financial instrument.

Confidence level. The probability that the institution will remain solvent. It is derived from the generally very low probability that losses will be larger than the available capital. A confidence level of 99.99 per cent means that there is a 0.01 per cent probability that losses will be higher than the available capital. The confidence level is linked to the risk appetite of the institution, and in particular to its target rating.

Conditional value at risk (CVaR). Also known as the expected shortfall, CVaR is a risk assessment measure that quantifies the amount of tail risk of an investment portfolio. CVaR is derived by taking a weighted average of the "extreme" losses in the tail of the distribution of possible returns, beyond the value at risk cut-off point.

Duration. A measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates.

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

Minimum liquidity requirement (MLR). The level of liquidity that IFAD must hold at any given time to serve at least the next 12 months' disbursements of loans and grants and scheduled repayments of debt in order to ensure continuity of development operations.

Modified Dietz methodology. A methodology to compute the rate of return of an investment portfolio. It is based on a weighted calculation of cash flows that follows market best practices. This is the methodology used by the IFAD custodian (Northern Trust) to compute the rate of return of IFAD's investment portfolio.

Target liquidity level (TLL). The TLL is defined within a range of 80 to 100 per cent of 24 months of future net cash flows. The cash flows are stressed under assumptions of reduced inflows such as the absence of new borrowing and delays in payment of contributions and loan reflows, or assumptions of increased outflows, such as the need to disburse beyond planned levels and to provide a small amount of countercyclical funding, when donors and borrowers do not have access to financing themselves.

Ten Principles of the United Nations Global Compact (UNGC). The Ten Principles are derived from: the Universal Declaration of Human Rights; the International Labour Organization's Declaration on Fundamental Principles and Rights at Work; the Rio Declaration on Environment and Development; and the United Nations Convention against Corruption.[15]

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