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## **GUIDELINES FOR INVESTING PRG, PRG-HIPC, AND CCR TRUST ASSETS**

On March 22, 2017, the Executive Board adopted the Guidelines for Investing PRG, PRG-HIPC, and CCR Trust Assets (the "Guidelines") to establish the investment objectives and policies to guide the investment of assets of the PRG, PRG-HIPC, and CCR Trusts (the "Trusts") which are available for investment under the Trusts' instruments. These Guidelines are included in this document.

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**International Monetary Fund  
Washington, D.C.**

# Guidelines for Investing PRG, PRG-HIPC, and CCR Trust Assets

## GENERAL PROVISIONS

### Investment Assets

1. These Guidelines establish the investment objectives and policies to guide the investment of resources of the Poverty Reduction and Growth Trust ("PRG Trust"), the Trust for Special Poverty and Growth Operations for the Heavily Indebted Poor Countries and Interim ECF Subsidy Operations ("PRG-HIPC Trust") and the Catastrophe Containment and Relief Trust ("CCR Trust") (each a "Trust," and collectively the "Trusts").
2. The resources of each Trust available for investment and subject to these Guidelines ("Investment Assets") shall consist of resources transferred from the Special Disbursement Account ("SDA") and donor contributions to the respective Trust.

### Responsibilities of the Managing Director

3. The Managing Director is responsible for implementing the investment policies set out in these Guidelines.
4. In carrying out the Managing Director's responsibilities, the Managing Director shall (a) establish effective decision-making and oversight arrangements; (b) take the necessary measures, including the adoption of policies and procedures, that seek to avoid actual or perceived conflicts of interest; and (c) establish specific risk control measures and put in place mechanisms to monitor their observance by asset managers.
5. In connection with the adoption of measures under paragraph 4(b), the Managing Director shall consult with the Executive Board regarding key conflicts of interest policies and arrangements.
6. The Managing Director shall provide annual reports to the Executive Board on the investment activities of the Trusts. Ad hoc reports shall be prepared as warranted by market or other developments.

### External Asset Managers

7. The Investment Assets of the Trusts shall be managed by external managers, except that the Managing Director is authorized to manage: (a) investments in obligations of the Bank for

International Settlements (BIS) and central bank deposits; and (b) other Investment Assets of the Trusts on an interim basis following the termination of an external asset manager and pending the transfer of the assets to another external asset manager.

8. The Managing Director shall only select external asset managers of the highest professional standards, and shall take into account their proven skills and track record suitable to achieve the investment objectives and to carry out the investment strategies set out under these Guidelines.

### **Custody Arrangements**

9. The Managing Director shall establish adequate measures for the safekeeping and custody of the Investment Assets of the Trusts.

### **Audit**

10. The Investment Assets of the Trusts shall be audited by the Fund's external auditors and included in the annual financial statements of the Fund.

### **Review of the Guidelines and Conflict of Interest Policies**

11. The Executive Board shall review these Guidelines and the Fund's relevant conflict of interest policies at least every five years.

## **INVESTMENT OF ASSETS OF THE PRG TRUST**

### **Investment Objectives**

12. The Investment Assets of the PRG Trust shall be invested taking into account the purposes of these assets (a) to generate income to support the self-sustaining operations of the PRG Trust, (b) to provide security to lenders to the PRG Trust, and (c) to provide adequate liquidity for the PRG Trust's operational needs.

13. The return target of the PRG Trust's investment is to generate a margin of 90 basis points above the six-month SDR rate, over a long-term investment horizon of at least 10 years.

### **Target Asset Allocation and Eligible Investments**

14. The Investment Assets of the PRG Trust shall be invested according to the following allocation targets as a percent of the Investment Assets of the PRG Trust: (a) 45 percent in liquidity and short duration fixed-income components, with the specific allocation between these two components to be established by the Managing Director, (b) 30 percent in a component of

corporate bonds, (c) 5 percent in a component of emerging market government bonds, and (d) 20 percent in a component of publicly listed equities.

15. (a) The liquidity component shall be limited to BIS deposits and central bank deposits, in each case with a maximum maturity of up to one year and denominated in SDR or currencies included in the SDR basket.

(b) The short duration fixed-income component shall have a maximum average duration of three years and be limited to the following:

- i. debt obligations issued by national governments of members or their central banks denominated in SDR, currencies included in the SDR basket or non-SDR currencies selected pursuant to ex ante criteria determined by the Managing Director;
- ii. debt obligations denominated in SDR or currencies included in the SDR basket issued by national agencies of the members whose currencies are in the SDR basket;
- iii. debt obligations denominated in SDR or currencies included in the SDR basket issued by international financial institutions;
- iv. obligations of the BIS, including without limitation deposits with the BIS and Medium-Term Instruments, denominated in SDR or currencies included in the SDR basket; and
- v. cash-equivalent investments with maturities of one year or less, that are denominated in SDR or currencies included in the SDR basket.

(c) The Managing Director shall establish the parameters for determining the specific assets eligible for the corporate bond, emerging market government bond and publicly listed equity components, and for duration and currency requirements for the corporate bond and emerging market government bond components. On an exceptional basis, the Managing Director may permit the inclusion of debt obligations issued by national governments of members or their central banks in the corporate bond component.

(d) In addition to investing in eligible assets as set out above, uninvested cash balances may be held temporarily in the short-term instruments of the custodian(s).

## **Investment Management**

16. The liquidity component shall be managed to meet the operational needs of the PRG Trust.
17. The short duration fixed-income component shall be managed actively, except for obligations of the BIS and central bank deposits managed by the Managing Director.
18. The components of corporate bonds, emerging market government bonds, and equities shall be managed passively.

## **Target Asset Allocation Rebalancing**

19. The allocation of the Investment Assets of the PRG Trust shall be rebalanced to the allocation targets under paragraph 14 above at least annually after the phase-in to the target asset allocation set out in paragraph 25 below has been completed. The Managing Director shall establish maximum deviation bands around these allocation targets, and corresponding modalities for rebalancing.

## **Minimum Credit Ratings**

20. Except for obligations of the BIS, central bank deposits, uninvested cash balances and equities, all assets in which the PRG Trust invests must have a credit rating equivalent to at least BBB- for corporate bonds and BBB+ for all other assets (based on Standard & Poor's long-term rating scale) by a major credit rating agency at the time of acquisition.
21. In cases where an asset is not directly rated, the Managing Director may determine whether a credit rating may be inferred for such asset in a manner that is consistent with market practice.

## **Divestment**

22. Any eligible investment that ceases to meet the rating threshold under paragraph 20 or otherwise becomes ineligible after acquisition shall be divested within three months, except that corporate bonds which fail to meet the rating threshold under paragraph 20 after acquisition may be divested or continue to be retained in accordance with modalities established by the Managing Director.

## **Limits on Investment Activities**

23. The Managing Director shall establish adequate safeguards against short selling and financial leverage.

24. Derivatives may be used for managing interest rate risk, currency hedging, or reducing costs in the context of portfolio balancing, benchmark replication and market access. The currency composition of the liquidity, short duration fixed-income, and corporate bond components shall be aligned with, or hedged to, the SDR basket composition.

### **Phase-in to Target Asset Allocation**

25. The portfolio shall be phased in to the target asset allocation under paragraph 14 above over a period of three years, or up to four years in exceptional circumstances.

## **OTHER TRUST ASSETS**

### **Investment Objectives**

26. The Investment Assets of the PRG-HIPC and CCR Trusts shall be invested to enhance returns subject to the liquidity requirements of each Trust while limiting the risk of impairment of capital over an investment horizon of no more than three years.

### **Eligible Investments**

27. The Investment Assets of each of the PRG-HIPC and CCR Trusts shall be invested in a liquidity component and an investment component, with the specific allocation between the two components determined by the Managing Director.

28. The liquidity component shall be limited to BIS deposits and central bank deposits, in each case with a maximum maturity of up to one year and denominated in SDR or currencies included in the SDR basket.

29. The investment component shall be limited to marketable obligations issued by a member or by a national official financial institution of a member that are denominated in SDR; marketable obligations issued by a member or by a national official financial institution of a member whose currency is in the SDR basket and that are denominated in the currency of that member; marketable obligations issued by international financial organizations and denominated in SDR or in a currency in the SDR basket; and deposits with a commercial bank, a national financial institution of a member, or an international financial institution that are denominated in SDR or in a currency in the SDR basket.

30. The investment component shall have a maximum average duration of three years.

**Investment Management**

31. The liquidity component shall be managed to meet the operational needs of the respective trust.

32. The investment component shall be managed actively except for investments in obligations of the BIS and central bank deposits managed by the Managing Director.

**Currency Composition Rebalancing**

33. The currency composition of the Investment Assets of the PRG-HIPC and CCR Trusts shall be rebalanced periodically to the SDR basket composition.

**Minimum Credit Ratings**

34. Except for obligations of the BIS, central bank deposits and uninvested cash balances, all assets in which the PRG-HIPC Trust and CCR Trust invest must have a credit rating equivalent to at least A (based on Standard & Poor's long-term rating scale) by a major credit rating agency at the time of acquisition.

35. In cases where an asset is not directly rated, the Managing Director may determine whether a credit rating may be inferred for such asset in a manner that is consistent with market practice.

**Divestment**

36. Any eligible investment that ceases to meet the rating threshold in paragraph 34 or otherwise becomes ineligible after acquisition shall be divested within three months.

**Limits on Investment Activities**

37. The Managing Director shall establish adequate safeguards against short selling and financial leverage.

38. Derivatives shall be prohibited except for forwards entered into for purposes of currency hedging with eligible issuers under paragraph 29.

**Use of Currencies**

39. Investment which does not involve an exchange of currency shall be made only after consultation with the member whose currency is to be used, or, when an exchange of currencies is involved, with the consent of the issuers of such currencies.