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WFP INVESTMENT MANAGEMENT POLICY

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Date: 30 September 1999

ED99/003
(Supersedes ED97/017)

INVESTMENT MANAGEMENT POLICY

1. Purpose

The purpose of this circular is to set out the principles of investment of for funds donated and/or entrusted to WFP, which are not immediately required in programme implementation, and to establish the WFP Investment Committee that will be responsible for overseeing the effective implementation of these policies.

2. Authority

The policy is developed pursuant to Financial Regulation 11.2 which states, “Monies not required immediately may be invested by the Executive Director, bearing in mind the need for safety, liquidity and profitability”. Pursuant to the Decision Memorandum signed by the ED on 28 October 1998, WFP established a Treasury Unit and assumed full responsibility for the management of the cash resources as of 1 January 1999.

3. Objectives

The primary objective of the investment management policy is the preservation of the value of resources, in US dollar terms. Within this general objective the principal considerations for investment management are in order of priority: (i) security of principal, (ii) liquidity and (iii) rate of return.

Given the above considerations the following policy guidelines are established for a more definitive range of operations for investment management.

4. Independent External Review

Although WFP assumed full responsibility for the management of its cash resources as of 1 January 1999, there is still the need for a regular independent appraisal of its investment activities. Since 1977 the FAO Advisory Committee on Investments has convened annually to give advice on investment and cash matters and is comprised of external advisors with expertise in investments and cash management (currently consisting of representatives from the World Bank, the Bank of Italy, the International Monetary Fund, the Bank of International Settlements and the European Bank for Reconstruction and Development). As a suitable framework is already in place, WFP will seek the advice of the Committee to ensure that the WFP investment management policy complies with the objectives stated in section 3 above.

5. Investment Committee

An Investment Committee (IC), whose members will serve in their personal capacity, is established comprising:

- (i) Mr. A. N. Ngongi, the Deputy Executive Director (the Chairperson)
- (ii) Mr. Tun Myat, the Director of Resources and External Affairs
- (iii) Mr. R. Lopes Da Silva, the Director of Transport and Logistics



- (iv) Mr. M. Usnick, the Director of Budget
- (v) Two external members appointed by the Executive Director

Ex-officio members include:

- (i) The Director of Finance and Information Systems
- (ii) An observer from the Office of Internal Audit
- (iii) The Chief, Treasury who will act as Secretary to the IC, prepare submissions and maintain records of all decisions and activities
- (iv) Other ad hoc members as the Chairperson may, from time to time, co-opt onto the Committee

The IC makes recommendations to the Executive Director for approval on:

- (i) Investment management policy and guidelines. Any changes to them become effective on the signature of the Executive Director
- (ii) Overall investment strategy with reference to diversification by type of investment and currency appropriate to internal liquidity and market conditions
- (iii) Selection and termination of external managers, a global custodian, external IC members and other advisors

The IC shall also:

- (i) Review the operational procedures and guidelines for investment management
- (ii) Review the performance and composition of the portfolio
- (iii) Monitor the performance of the external managers to ensure compliance with the investment guidelines
- (iv) Review the foreign exchange exposure and the foreign exchange transactions
- (v) Review banking relationships and electronic banking systems
- (vi) Prepare an annual report for the ED
- (vii) Advise on other matters which in the view of the IC should be brought to the attention of the Executive Director

The IC shall meet quarterly or as necessary. The IC shall establish its own Rules of Procedure.

6. Responsibilities of the External Managers

Subject to the contract between WFP and the External Manager, the External Manager shall be responsible for making all investment decisions regarding the assets under its management, including the decisions to buy, sell and hold securities, and will be held accountable for achieving the investment objectives as stated in the contract. The performance of the external managers shall be measured against a pre-determined benchmark specified in the contract.

7. Responsibilities of the Global Custodian

Subject to the contract between WFP and the Global Custodian, the Global Custodian is responsible for core custody products such as safekeeping of assets, settlement of transactions, collection of income, tax reclamation, valuations and portfolio



accounting. The Global Custodian shall provide other ancillary services such as risk analysis, performance measurement, securities lending and compliance reporting.

8. Decision Making Process

The day-to-day decisions will be made by the Chief, Treasury within the approved investment management policy and will submit to the Director of Finance and Information Systems a weekly report on the actions taken. If market conditions change significantly from those anticipated in the strategy, the Chairperson may approve alternative action based on presentations from the Chief, Treasury through the Director, Finance and Information Systems Division. All alternative action must be reviewed and recommended for the approval of the ED ex post facto in the succeeding meeting of the IC.

9. Investment Policy Guidelines

(i) General

The following guidelines apply to all investments made directly by WFP or through external managers appointed by the ED.

(ii) Liquidity Requirements and Investment Periods

For the purposes of this policy, financial assets with a maturity not exceeding one year are defined as “short term”; one to two years as “medium term” and two to five years as “long term”.

In order to ensure the availability of funds for operational requirements, investments should be made in light of WFP’s disbursing needs for operational purposes. When this requirement has been met, remaining funds may be invested for periods of up to five years in highly liquid fixed income securities or in fixed time deposits. The average duration of the total investment portfolio must not exceed two years.

(iii) Quality

The quality of medium to long-term fixed income securities of governments, supranational organisations or corporations will average AA-/Aa3 and for banks, the quality will be not less than A1/P2 for Standard and Poor’s and Moody’s respectively. (A glossary of credit quality terms used by Moody’s Investor Service is appended.)

(iv) Fixed Income Securities for Investment

The range of fixed income investments are defined as:

- a) time deposits
- b) certificates of deposit
- c) bankers acceptances
- d) commercial paper
- e) treasury bills
- f) notes and bonds, including floating rate notes
- g) mortgaged backed securities
- h) asset backed securities



i) fixed income derivatives (hedging purposes only)

(v) Investment Limits for Banks

A maximum of 25% of the portfolio per manager or equivalent in foreign exchange and investments may be placed in banks with a rating of A1/P1 for Standard and Poor's and Moody's, respectively.

A maximum limit of 10% of the portfolio per manager or equivalent in foreign exchange and investments may be placed in banks with a rating of A1/P2 for Standard and Poor's and Moody's, respectively.

The maximum limits of 25% or 10% per manager will be reviewed regularly in line with the level of WFP's total investments and prevailing conditions in the banking industry. Funds on deposit in WFP current accounts or in call accounts with banks in various countries are not included in the calculation of these limits since such funds will be utilised or invested within a short period of time.

(vi) Investment Limits on Other Assets

There are no limits on the amount of bills, notes or bonds etc. that can be purchased for a single issuer provided that no more than 10% of any single issue is purchased.

(vii) Sovereign Risk

Investments shall be placed only in banks in the major money market centres located in Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, United Kingdom and United States and the off-shore centres of Ireland, Nassau and the Cayman Islands.

10. Rate of Return

Within the objectives of security of principal, liquidity and convertibility, WFP will seek to obtain the optimum prevailing interest and foreign exchange rates in the market.

11. Currency Management Policy

The currency management policy is:

- a) only that portion of a particular currency which represents, at the time of analysis, an excess over the projected operational requirements during the subsequent twelve months may be sold.
- b) conversely, a currency, other than US dollar may only be purchased if there is a demonstrable need for that currency.

12. Foreign Exchange Instruments

Generally, WFP will conduct its foreign exchange transactions on the spot market. However, derivative instruments, such as forward contracts and options, may be used to reduce foreign exchange risk on current and certain future obligations. That is, WFP may hedge against the risk of changes in foreign currency value for the following transactions/assets /liabilities:

- a) contributions paid or to be received
- b) future investment maturities



- c) Italian lira budgeted administrative costs
- d) non-USD balances

The forward contracts will be limited to the above expressed purposes and have a maximum time frame of one year. WFP will not utilise derivative products for trading or speculative purposes.

13. Implementation

To achieve the objective of preservation of value of WFP resources, the IC is instructed to ensure that the appropriate operational procedures and guidelines are prepared and approved in line with this policy.

This circular takes effect 30 September 1999 and supersedes ED97/017.

(Signed)

CATHERINE BERTINI
Executive Director



Glossary of Credit Rating Terms

A credit rating is an opinion on the ability and legal obligation of an issuer to make timely payments of principal and interest. There are several credit rating services for fixed income investments with Standard and Poor's and Moody's being the most famous. Moody's Aaa through C rating symbols are used to rate the creditworthiness of obligations that extend over one year or more (see table for complete list).

Moody's Rating Symbols

Investment Grade	Speculative Grade
Aaa	
Aa1	Ba1
Aa2	Ba2
Aa3	Ba3
A1	B1
A2	B2
A3	B3
Baa1	Caa
Baa2	Ca
Baa3	C

At the top of the scale, Moody's "triple A" represents the highest quality, meaning that the security ranks well above those in all other categories in margins of safety against default under the most severe economic conditions. The lowest rating C, indicates the highest level of credit risk, meaning that an obligation has an extremely poor chance of attaining any real investment value. In between, securities rated Baa and above are considered to be of investment grade; and those rated Ba and below as speculative. Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds.

Moody's short term rating symbols are used to rate securities that mature in less than a year, such as commercial paper and bank deposits. A Prime rating (P) indicates Moody's opinion that the issuer has sufficient financial strength or access to back up liquidity to meet all of its short term obligations under conditions of market stress. Issuers rated P2 and above have a strong ability for repayment of short term debt obligations.