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**Statement by Mr. Bhalla and Mr. Natarajan on Review of the Investment Account and Trust Assets Investment Strategy  
(Preliminary)  
Executive Board Meeting  
January 12, 2022**

1. We thank the staff for the elaborate work and detailed report on the proposed investment strategies for the Investment Account and Trust Assets. We agree with the fundamental approach for appropriate balance between risks and income generating potential. Evaluation of the past performance of the investment portfolio provides a useful guide for deciding any modification in the future strategy.

2. We take note of the performance of the endowment account which has remained above the return target since 2014. The exceptional performance in the equities and other risk assets during the pandemic has contributed significantly to this strong return. The outlook of decrease in the risk-free interest rates and the inflation uncertainties at least in the near-term requires to be incorporated in the proposed strategy. We note that the proposal is for maintaining of a target real return at 3 percent along with modifications in the proposed portfolio of investments with higher volatility. At the same time the report justifies this based on lower downside risks and long-term resilience in the proposed strategy as compared to the current strategy.

3. We recognize the experience of pilot on core-satellite structure does not support the case for extending the board active management strategy. We support the diversification suggested by staff towards investment in real assets – Real estate and infrastructure investment since the relatively lower long-term risk and resilience against inflation make them candidates for increasing their share in the portfolio. The investment approach proposes a passive approach except for EM equities. *Given that the proposed strategy exhibits resilience over the long-term compared to the medium-term, can the staff comment on the duration and length of passive investment approach for various groups of assets?*

4. We recognize the robust performance of the Fixed Income (FI) Subaccount based on the expanded investment strategy established in 2015. There is limited scope for enhancing return from fixed-income reserve portfolio in the context of the current low yield environment. Broadening the eligible investment universe to include BBB- rated securities can increase diversification and returns. In this context, we take note of the staff analysis which shows that the proposed refinements in the current investment strategy including lowering minimum eligible credit rating with suitable risk controls and modifying the portfolio can yield better returns while maintaining the balanced risk profile.

5. It is important that the PRGT's investment approach is aligned with its need for long-term self-sustaining financial support. Creation of the new Deposit and Investment Account (DIA) and expected surge in PRGT lending are required to be incorporated in the proposed strategy. The proposal to enhance the share of short duration fixed-income component by 15 percent and corresponding reduction in the share of global corporate bond allocation is expected to improve the risk-return profile of PRGT investment. The proposal should also take into account the increase in the level of active administrative work in managing the portfolio and the cost implications thereof.

6. We welcome the staff paper on the review of the Conflict of Interest Framework of the Investment Accounts and Trust Assets. We welcome the peer

benchmarking exercise to review the institutional conflicts framework and the need to incorporate the proposed refinement in the existing framework. Reducing reliance on contextual analysis in favor of bright-line rules especially in case of identifying and restricting nexus instruments needs to be carried forward.