FOR INFORMATION

EBS/21/76

CONFIDENTIAL

August 3, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Annual Report of the Investment Account and Trust Accounts for FY2021**

Board Action:	Executive Directors' **information**
Publication:	Not proposed, due to market sensitivity of content
Additional Information:	This report provides background for a staff briefing to be scheduled on a date to be announced.
Questions:	Mr. Brennan, FIN (ext. 34653) Mr. Farahmand, FIN (ext. 38508)

INTERNATIONAL MONETARY FUND

CONFIDENTIAL

August 3, 2021

ANNUAL REPORT OF THE INVESTMENT ACCOUNT AND TRUST ASSETS FOR FY2021

EXECUTIVE SUMMARY

This Annual Report covers the Investment Account (IA) and Trust Assets (TA) for FY2021. Performance across all portfolios was strong in FY2021, supported by the specific investment strategies for each account. No significant operational or compliance issue arose during the year and further steps were taken to strengthen engagement on Environmental, Social, and Governance (ESG) issues.

The IA's Endowment Subaccount (EA) returned 19.76 percent in FY2021. The high return benefited importantly from record breaking global equity markets and tightening credit spreads. The EA's annualized return since inception has exceeded its long-term real return objective by 84 basis points (bp). Progress was made towards investing 5 percent of the EA's passive component in private infrastructure debt.

The IA's Fixed-Income Subaccount (FI) returned 0.52 percent in FY2021, exceeding the 3-month SDR interest rate (SDRi) index by 44 bp. Since the inception of the new strategy in FY2017, the FI has generated an annualized return of 1.02 percent, outperforming the SDRi index by 43 bp. The two-tranche investment strategy continued to perform as designed; the new 65/35 tranche split (50/50 previously) boosted the FI's performance.

The Trust Assets (TA) for the Poverty Reduction and Growth Trust (PRGT) portfolio returned 7.64 percent in FY2021, exceeding the 6-month SDR rate by 7.54 percent. The portfolio benefited from the exceptional performance of global equities. Its phased allocation to equities, Emerging Market (EM) bonds, and Developed Market (DM) corporate bonds was completed in December 2020 according to plan.

Staff's oversight of external managers continued to reveal progress in the area of responsible investing. In FY2021, managers focused on steps to integrate climate risk metrics and strengthen corporate engagement practices.

Approved By
Bernard Lauwers

Prepared by the Investment Unit team. The Investment Oversight Committee (IOC) has reviewed this report.

CONTENTS

TABLES

ANNEXES

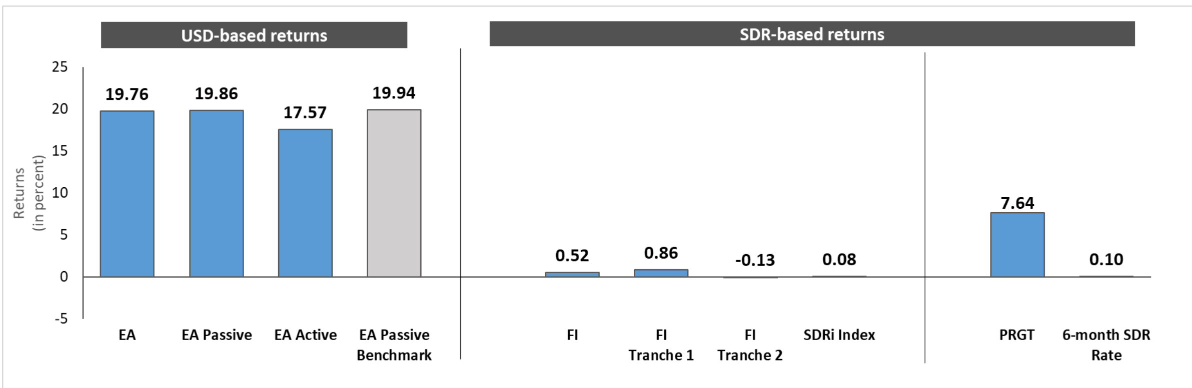
Glossary

bp	Basis points
BIS	Bank for International Settlements
CCR Trust	Catastrophe Containment and Relief Trust
DM	Developed Market
EA	Investment Account Endowment Subaccount
EM	Emerging Market
ESG	Environmental, Social, and Governance
FI	Investment Account Fixed-Income Subaccount
FOMC	Federal Open Market Committee
GED	Global External Deflator
GRA	General Resources Account
IA	Investment Account
IMA	Investment Management Agreement
IOC	Investment Oversight Committee
MTI	Medium-Term Instruments
NAV	Net asset value
PRG-HIPC	Poverty Reduction and Growth Operations for the Heavily Indebted Poor Countries Trust
PRGT	Poverty Reduction and Growth Trust
REITs	Real Estate Investment Trusts
SAA	Strategic Asset Allocation
SDA	Special Disbursement Account
SDRi	SDR interest rate
SSBT	State Street Bank & Trust Company
T1	Tranche 1 of the Investment Account Fixed-Income Subaccount
T2	Tranche 2 of the Investment Account Fixed-Income Subaccount
TA	Trust Assets
UNPRI	United Nations Principles for Responsible Investing
VaR	Value at Risk

INTRODUCTION

1. This report discusses the performance of the IA and TA portfolios during the 12-month period ending April 2021. The IA consists of two subaccounts, the Endowment Subaccount (EA) and the Fixed-Income Subaccount (FI). The TA is comprised of assets of the PRGT as well as the PRG-HIPC and CCR Trusts that are available for investment, of which roughly 95 percent are in the PRGT. Summary performance highlights for the three main investment portfolios are shown below (Figure 1). This report also updates the Board on key portfolio developments and decisions taken by the Investment Oversight Committee (IOC) on behalf of the Managing Director.

Figure 1. FY2021 Returns for EA, FI, and TA[1]
(In percent, net of all fees)



Source: State Street data.

Notes: Returns are net of management and custodian fees. Management and custodian fees average around 6 bp in the FI and TA and around 10 bp in the EA. No management fees are associated with BIS investments, which are managed internally. Custody fees are less than 1 bp for these instruments.

____

[1] SDRi index return calculates the return based on the Fund's official SDR interest rate and following standard market methodology. The 3-month SDRi rate is also shown in the report (Table 2) for reference; however, the SDRi index return is used when assessing manager and portfolio performance. See *Annual Report of the Investment Account and Trust Accounts for FY2017* (EBS/17/81, 7/21/2017).

2. The report is organized as follows. The next section provides some background on the portfolios and discusses recent developments. Subsequent sections report on market and portfolio performance, risk controls, and compliance with investment guidelines. The report provides also an update on environmental, social, and governance (ESG) considerations in the management of the IA and TA. The final section focuses on the return and risk outlook for the portfolios.

BACKGROUND

A. Portfolio Strategies and Developments

Investment Account (IA)

3. The two IA Subaccounts have distinct investment objectives and pursue different strategies accordingly. The objectives and strategies are set out in the Rules and Regulations for the IA ("Rules") approved by the Board.[1] They are summarized below:

- The investment objective of the **EA** is to achieve a long-term real rate of return of 3 percent in US dollar terms. At least 90 percent of the EA follows a passive investment approach with a diversified 60/40 percent fixed income and equity Strategic Asset Allocation (SAA) (Figure 2). The actively managed portion of the EA, initially 5 percent, is managed in accordance with the investment strategy and arrangements determined by the Managing Director following consultation with the Executive Board.[2]

- The investment objective of the **FI** is to produce returns in excess of the three-month SDR interest rate (SDRi), while minimizing the frequency and extent of negative returns and underperformance over an investment horizon of three to four years.[3] The strategy aims at generating income while protecting the Fund's balance sheet. It benefits from a broad universe of eligible high-quality fixed-income instruments. The FI comprises two tranches. Tranche 1 (T1) is a short-duration, diversified fixed-income portfolio in which external managers can invest actively across government bonds, obligations of the BIS, obligations of international financial institutions (Group 1 assets)[4] as well as high-grade fixed-income credit instruments such as corporate bonds and asset-backed securities (Group 2 assets).[5] Tranche 2 (T2) is invested only in Group 1 assets and managed under a longer-duration buy-and-hold approach which is being phased in over a five-year period (Figure 3).

4. Progress was made on implementing the 5 percent allocation to private infrastructure debt in the passive component of the EA.[6] This asset class is managed externally, with a passive buy-and-hold approach, a primary focus on investment-grade (IG) equivalent debt, and an initial preference for commingled funds. The IOC approved two funds in FY2021, a US dollar open-ended fund in May 2020 and a euro-denominated closed-end fund in December 2020, totaling about half of the allocation approved by the Board for this new asset class. Funds were selected after a

[1] See *Rules and Regulations for the Investment Account*, *(Public—IMF external website, August 15, 2019)*

[2] See *Investment Account—Further Consultation on the Active Portion of the Endowment and Proposed Amendments to the Rules and Regulations* (SM/16/234, 06/29/2016).

[3] See *Review of the Investment Strategy for the Fixed-Income Subaccount of the Investment Account* (SM/15/210, 08/05/15); and *The Acting Chair's Summing Up, Review of the Investment Strategy for the Fixed-Income Subaccount of the Investment Account* (BUFF/15/78, 09/02/2015).

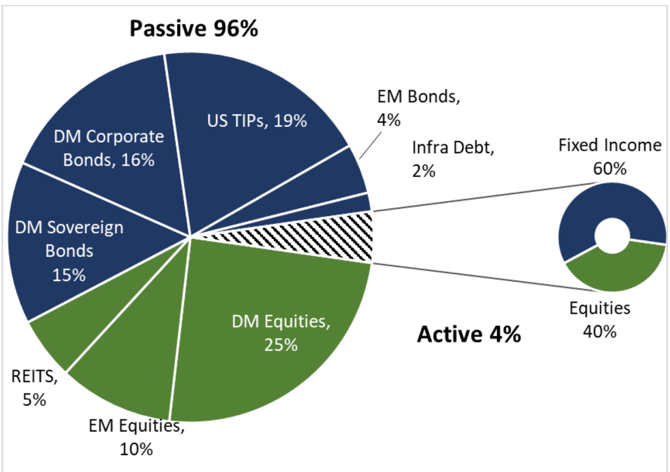
[4] Group 1 assets include fixed-income securities in SDR or SDR basket currencies issued by national governments, national agencies of the members whose currencies are in the SDR basket, international financial institutions, and the BIS.

[5] Group 2 assets include: (i) non-SDR denominated fixed-income government securities, (ii) SDR or SDR currency denominated securities of subnational governments mortgage backed-securities (MBS), asset-backed securities (ABS), short-dated corporate securities and covered bonds, and (iii) cash instruments with maturities of one year or less that are denominated in SDR or SDR basket currencies.

[6] See *The Investment Account—Introducing Private Fixed Income in the Endowment Subaccount (SM/19/80, 4/10/2019); and The Acting Chair's Summing Up, The Investment Account—Introducing Private Fixed Income in the Endowment Subaccount Executive Board Meeting 19/38, May 13, 2019* (SU/19/63, 5/15/2019).

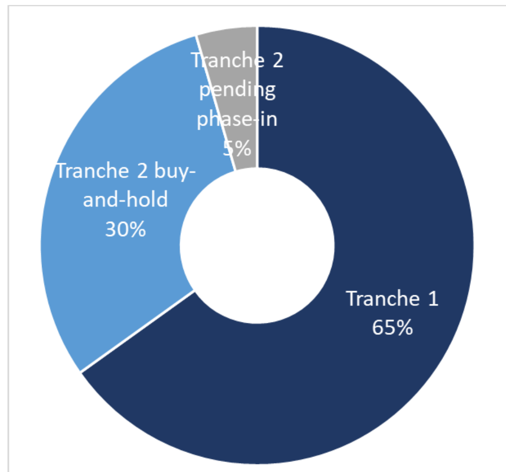
stringent due diligence process. Actual investments will be phased in by managers over a period of three to four years. Both funds are sponsored by managers owned by large European insurance companies that also co-invest their own assets either inside or alongside the funds, creating strong alignment of interests. Staff will assess the suitability of further commitments to infrastructure debt in a phased manner through FY2022, taking also into account the impact of the pandemic on this asset class, as yields declined further and investors shifted towards more risky sub-IG investments.

Figure 2. Composition of EA
(April 30, 2021)



Source: State Street data

Figure 3. FI Composition of FI
(April 30, 2021)



Source: State Street data

5. **During FY2021, the IOC approved new rebalancing modalities for the EA and authorized the phase-in of FI T2 to resume.** These new modalities facilitated the addition of private infrastructure debt to the EA and made improvements to the overall portfolio rebalancing process. The IOC also approved the resumption of the FI T2 phase-in, which had been suspended in April 2020 in response to exceptional market conditions prevailing at the height of the COVID-19 crisis (see Box 1 for a summary of IOC meetings during FY2021). The five-year phase-in is expected to be completed by December 2021.

6. **The FY2020 GRA net income transfer resulted in an outflow of SDR 319.1 million from the FI to the GRA[7].** The outflow took place on August 3, 2020 in a proportion to maintain the 65/35 split between T1 and T2 in the FI.

[7] See *Review of the Fund's Income Position for FY2020 and FY2021-2022* (EBS/20/58, 4/13/20) and *The Fund's Actual Income Position for FY2020—Actual Outcome* (EBAP/20/62, 9/9/20).

Trust Assets (TA)

7. The TA are comprised of the assets of PRGT and other trusts and follow distinct investment strategies, based on the different purposes of each trust and their liquidity requirements (Figure 4.a).[8] The investment objectives for the PRGT assets are to provide security to lenders, liquidity for disbursement needs, and generate a margin of 90 bp above the six-month SDR interest rate over a long-term investment horizon to support the PRGT's current self-sustaining framework. To help secure the PRGT's investment return objective and diversify risks, the Board approved an SAA in FY2017 which included allocations to three new asset classes: corporate bonds, global equities, and EM bonds.[9] In addition, the PRGT holds a 45 percent allocation in short-duration fixed-income and liquidity components (Figures 4.b). Other TAs are invested in BIS obligations in line with their short investment horizon and to be able to meet potential liquidity needs (Figure 5).

8. The phased implementation of the new PRGT asset classes was completed in December 2020 with no issues arising. During the year, the IOC approved new rebalancing modalities for the PRGT to improve the overall portfolio rebalancing process (Box 1).

B. Conflict of Interest Framework

9. No actual or perceived conflicts of interest emerged during FY2021. The Fund's conflict framework maintains strong safeguards to eliminate or mitigate the risks associated with actual and perceived personal and institutional conflicts of interest and in particular, the misuse of confidential information obtained or generated in the context of the Fund's other core activities. The framework relies on the separation of responsibilities between the Board, the Managing Director, staff, and external managers; comprehensive policies and procedures; and management oversight. In 2020, after extensive consultations by ORM of staff in FIN, LEG, ETO, OBP, and OIA, management approved enhancements to the role of the Designated Officer (DO). These enhancements include: training on institutional conflicts for the DO and staff; monitoring of best practices for mitigating institutional conflicts; and testing and monitoring information barriers around Investment Unit staff. The forthcoming 5-yearly Review of the IA and TA will assess whether improvements to the conflicts' framework are warranted so that it continues to promote the goal of appropriately mitigating actual and perceived conflicts of interest.

[8] See *Review of the Investment Strategy for Trust Assets* (SM/17/28, 2/22/2017). Other TA include the assets of the Catastrophe Containment and Relief (CCR) Trust and the Poverty Reduction and Growth Operations for the Heavily Indebted Poor Countries (PRG-HIPC) Trust that are available for investment.

[9] See also *Guidelines for Investing PRG, PRG-HIPC, and CCR Trust Assets*, *(Public—IMF external website, September 6, 2017)*

Box 1. Summary of Investment Oversight Committee Meetings in FY2021

The IOC is charged with assisting the Managing Director in her responsibilities for implementing the investment policies for the IA and TA. Through its delegated authority, the IOC is responsible for implementing conflicts of interest policies and investment strategies, reviewing investment performance, and providing strategic oversight and advice. As part of the Review of the IA in March 2018, the Board approved a further delegation of certain investment modalities to the Managing Director to enable a more efficient implementation of the IA. This further delegation aligned the investment arrangements of the IA to that of the TA, which was approved by the Board in March 2017. The responsibilities of the IOC for oversight and implementation decisions reinforce the overall governance framework with an appropriate separation of responsibilities, thereby mitigating potential conflicts of interest.

As mandated by its terms of reference,[1] the IOC met quarterly in FY2021, plus once in May 2020 to approve the EA's first commitment to infrastructure debt. In addition to reviewing quarterly and annual portfolio performance reports, the IOC addressed the topics presented below and reached the following key decisions:

- **May 2020:** The Committee approved the EA's first commitment of US $125 million to a US dollar-denominated private infrastructure debt fund, which is part of the 5 percent allocation to the asset class approved by the Board in May 2019.

- **July 2020:** The Committee approved new rebalancing modalities for the EA and the PRGT. It also approved resuming the phase-in of FI T2, which was suspended by the Committee in April 2020. In addition, the IOC discussed establishing a Board-level commitment to responsible investing.

- **September 2020:** The IOC discussed an outline for the 5-yearly Board Review of the IA and TA and was updated on the annual informal briefing of the Board in August.

- **December 2020:** The IOC discussed a proposed approach for formalizing a Board's commitment to responsible investing for the IA and TA. The Committee also approved a commitment of Euro 100 million to a second infrastructure debt fund for the EA.

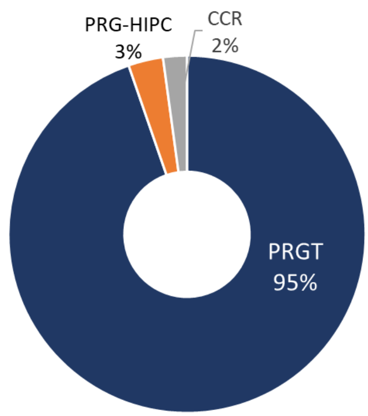
- **March 2021:** The Committee discussed staff's initial considerations for 5-yearly Review of the IA and TA ahead of the June 2021 Board meeting.

IOC members: Mr. Furusawa (Chair); Mr. Tweedie (Vice Chair); Mr. Adrian; Ms. Kochhar; Mr. Ogada (appointed in September 2020, replacing Mr. Lin); Ms. Weeks-Brown; and Mr. Brennan (Secretary). Mr. Lauwers replaced Mr. Tweedie as Vice Chair in April 2021.

---

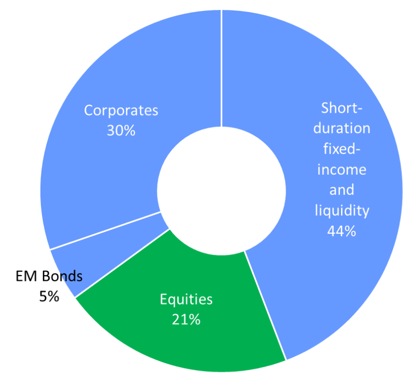
[1] The IOC's terms of reference were last published in the *Annual Report of the Investment Account and Trust Accounts for FY2018* (EBS/18/74, 7/31/2018).

Figure 4a. Composition of TA
(April 30, 2021)



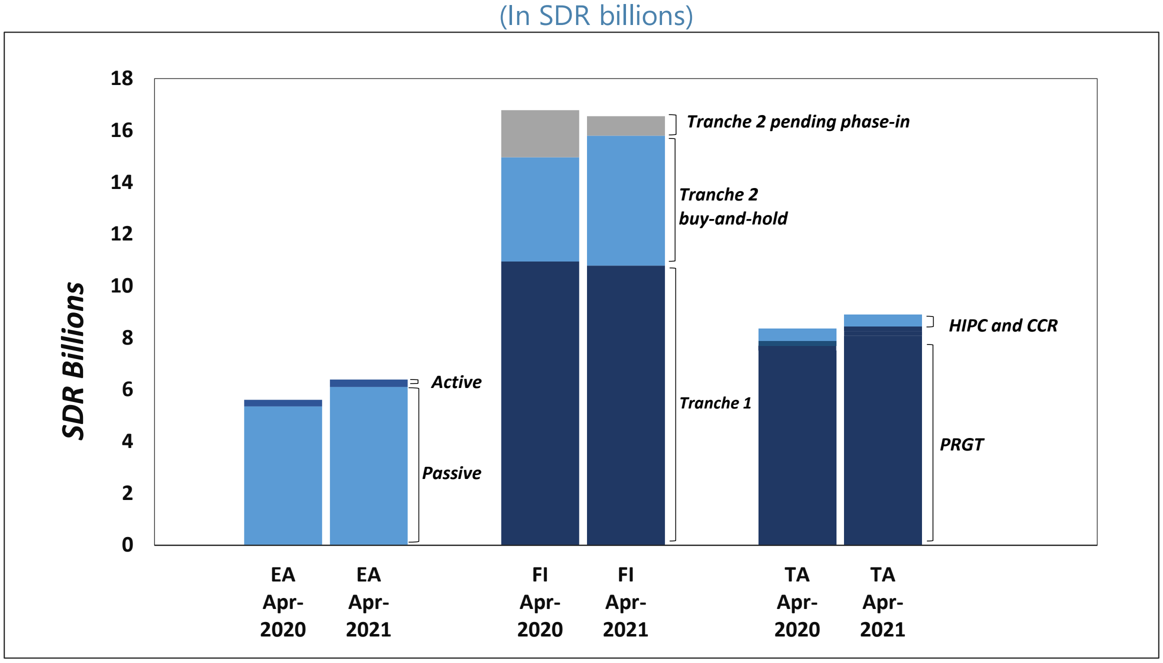
Source: State Street data.

Figure 4b. Composition of TA-PRGT
(April 30, 2021)



Source: State Street data.

Figure 5. Net Asset Value (NAV) of EA, FI, and TA
(In SDR billions)



Source: State Street data.

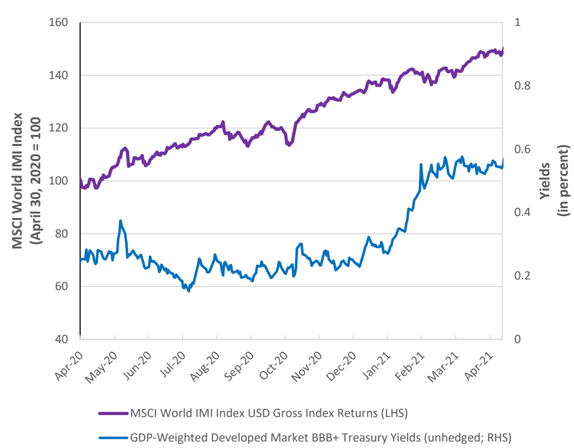
MARKET AND PORTFOLIO PERFORMANCE

A. Market Developments

10. Equity markets posted record-breaking gains in FY2021. After the selloff triggered by the pandemic outbreak earlier in 2020, equities nearly fully recovered by end-July, buoyed by exceptional monetary and fiscal policy measures. The rally paused in FY2021:Q2 due to uncertainties around US presidential elections, post-Brexit negotiations, and the lockdown imposed in several countries. After November, however, equities progressed again and reached new record levels in response to the US election outcome, additional stimulus packages, encouraging vaccination pace in the US, Europe and China, and the ongoing support of major central banks. By end-FY2021, DM and EM equities had gained 48.4 and 51.7 percent, respectively (Figure 6 and 8). Credit spreads tightened significantly in sympathy with equities and central bank policy support, settling at or below pre-pandemic levels shortly after.

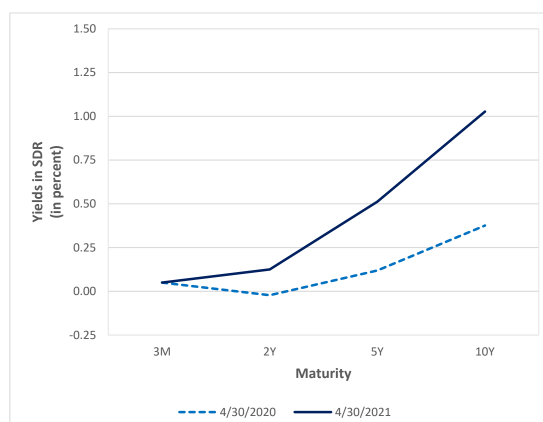
11. In contrast, government bond yields moved higher and the curve steepened on growing expectations of higher inflation risks (Figure 7). Two-year SDR government bond yields rose by 15 bps and settled marginally above zero percent by end-April 2021 (Table 1). Two-year rates in the SDR currency basket were generally anchored by supportive monetary policy, except in China where they rose by 130 bps, reflecting China's faster economic recovery. Yields on 10-year SDR bonds ended the period 65 bp higher, resulting in the steepening of the yield curve, especially in the US, EU, and UK. In the US, the steepening reflected mainly rising inflation expectations, changes to the Federal Reserve's inflation-targeting framework, and three large fiscal stimulus packages. The Chinese yield curve was the only one to exhibit a flattening trend; rates were little changed in Japan.

Figure 6. MSCI World Index Returns and Developed Market Treasury Yields
Over FY2021



Sources: Bloomberg and staff calculations.

Figure 7. SDR Government Bond Yields
In percent, over FY2021



Sources: Bloomberg and staff calculations.
Note: 3-month SDR rate at 5 bp floor at end-April 2021.

Figure 8. EA's Multi-Asset Benchmark Index Returns from FY2009 to FY2021
(Percentage change, each year as of end-April)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	10Y Avg
DM Sov. Bonds	6.9	3.3	2.1	6.6	5.2	0.4	6.3	3.0	1.1	0.6	5.6	10.7	-3.2	3.6
US TIPs 0-10 Y	-0.7	8.1	7.1	6.5	2.5	-3.6	0.8	1.2	1.6	0.0	3.2	5.8	6.9	2.5
EM Bonds /1	-1.6	23.5	8.6	9.6	12.0	-1.5	-3.2	-4.0	-3.9	10.7	-0.3	3.2	7.8	3.0
Corporate Bonds /2	-4.0	19.8	5.2	7.0	8.8	1.7	5.3	2.7	3.7	1.5	6.3	7.3	5.0	4.9
DM Equities	-38.6	39.8	19.7	-4.4	17.4	17.6	7.8	-3.4	15.7	14.0	6.3	-4.8	48.4	11.4
EM Equities	-42.5	60.4	21.0	-13.0	5.4	-1.4	8.4	-17.3	18.8	21.5	-5.5	-12.4	51.7	5.6
REITs	-51.9	62.1	25.6	4.0	23.0	0.4	11.2	6.8	2.1	1.5	13.6	-17.6	37.2	8.2

[1] Local Currency Index from 2015, Hard Currency/ Local Currency Index prior.
[2] DM Corporate Bond Index for reference.
Sources: Bloomberg and staff calculations.

B. Portfolio Performance

EA Performance

12. **The passive EA strategy returned 19.86 percent, an exceptionally strong result reflecting the historical rally in equities and strong performance of most fixed income assets (Table 2**). EM equities (51.23 percent) and debt (7.74 percent) were the best performing assets in each category. DM equities lagged their EM counterparts modestly (48.30 percent). REITs (37.06 percent) trailed other equities with the sector's performance reflecting the uneven pace of re-openings in the retail and office sectors. In the fixed income sleeve, US TIPs performed well (6.78 percent) in reaction to rising inflation expectations (Figure 9). Corporate bonds had a solid, albeit less notable, performance (3.81 percent) on the back of tightening credit spreads (Figure 10). Their shorter duration compared to government bonds cushioned the impact of rising yields. Government bonds were the only asset class to experience a negative return (-3.30 percent) reflecting the back up in nominal yields and their longer duration. Investments in private infrastructure debt were phased in and while commitments represented about 2.7 percent of the EA, actual investments only accounted for 0.2 percent, as capital calls are expected to take place very gradually over a three to four-year period. Infrastructure debt returned 5 bp.[10]

13. **With this exceptional performance, the EA exceeded its long-term 3 percent real return target by a wide margin.** The EA overall returned 19.76 percent in FY2021 compared to 5.40 percent for its 3 percent real return target (in nominal terms). The EA's inception to date return of 6.11 percent exceeded the long-term real return objective of 3 percent, which equated to a nominal return of 5.27 percent.

[10] This net return includes initial commingled fund setup costs, which are generally charged to investors in the early years, in addition to more routine fixed costs such as administration and audit. Overtime, overall costs, and fees are expected to be in line with staff's initial expectations of 50 bp indicated in the 2019 Board paper.

Table 1. Key Financial Indicators and Market Performance, FY2021

SDR BOND MARKETS	2-Year Yields Level	2-Year Yields Change in bp	10-Year Yields Level	10-Year Yields Change in bp
Synthetic SDR	0.12%	15	1.02%	65
US Treasury	0.16%	-4	1.63%	99
Bund	-0.68%	8	-0.20%	38
Gilt	0.08%	6	0.84%	61
JGB	-0.12%	5	0.10%	13
CGB	2.58%	130	3.19%	65

SDR 3-month Index	Return in bp
SDR Interest Rate Index	8

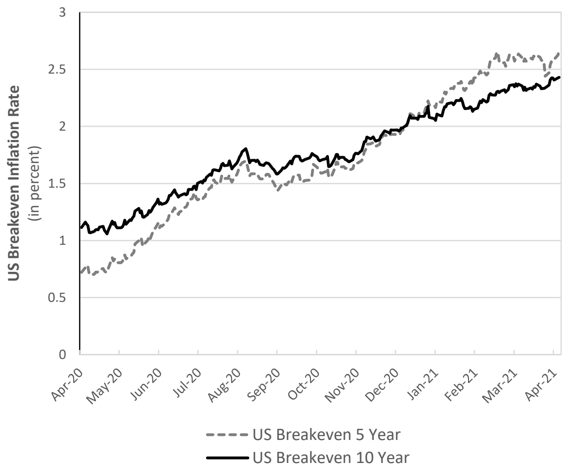
SPREADS	Level	Change in bp
2-year Swap Spreads (Synthetic SDR)	15	-11
Barclays 0-3Y US Corporate Index OAS	43	-109
Barclays 0-3Y EUR Corporate Index OAS	53	-117
Barclays US ABS Avg OAS	24	-94
Barclays Global Agg US MBS OAS	30	-34
JPM Emerging Market Bond Index Spread	294	-271
US Investment Grade Industrials	91	-99
Barclays Global Agg Financials Avg OAS	86	-117
Barclays Global Agg Utilities Avg OAS	99	-78

EQUITY MARKETS	Level	Change	BLOOMBERG BARCLAYS CUSTOMIZED FIXED-INCOME BENCHMARKS (EA)	
S&P 500	4,181	43.6%	DM Sovereign Bonds	-3.2%
Euro Stoxx 50 (Pr)	3,975	35.8%		
FTSE-100	6,970	18.1%	US TIPS 0-10 Years	6.9%
Topix	1,898	17.3%		
MSCI World IMI	2,640	48.4%	DM Corporates	5.0%
MSCI EM IMI	1,942	51.7%		
FTSE DM REITs	2,270	37.2%	EM Local Bonds	7.8%

Sources: Bloomberg and staff calculations.

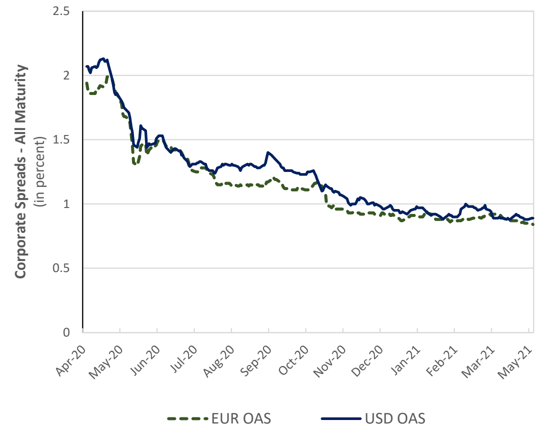
Notes: All Endowment benchmark returns are in USD, all other equity indices in local return. All rates annualized. Arrows indicate return impact.

Figure 9. US Breakeven Inflation Rates
(In percent, over FY2021)



Sources: Bloomberg and staff calculations.

Figure 10. Global Investment Grade Corporate Spreads - All Maturity
(In percent, over FY2021)



Sources: Bloomberg and staff calculations.

FI Performance

14. **The FI returned 0.52 percent over the fiscal year, 44 bp above the SDRi index which it seeks to outperform (Table 2).** The expanded, two-tranche structure of the FI continued to perform as intended. The actively managed T1 returned 0.86 percent, 78 bp above the SDRi index and benefited from its expanded universe of permissible instruments. The tightening of credit spreads boosted returns while the shorter duration of T1 cushioned the impact of rising yields during the period. . The longer duration buy-and-hold T2 recorded a small loss of 0.09 percent (0.13 percent when including the legacy portfolio) due to its greater sensitivity to interest rate movements, lack of additional yield cushion from credit instruments, and the poor performance of BIS MTIs. T2 suffered from rising yields but outperformed the 0–5 year government bond index due to higher yielding Group 1 assets, such as agency bonds. During the period, a new manager was added to T2. The new 65/35 tranche split (50/50 previously) initiated in FY2020 by the IOC benefited the FI. Since the inception of the new strategy in 2016, the overall FI return exceeded the return of the SDRi index by 43 bps.

TA Performance

15. **While still in transition for most of the period, the PRGT portfolio returned 7.64 percent in FY2021, exceeding the six-month SDRi by 7.54 percentage points (Table 2).** The strong performance reflected exceptional equity gains throughout the period. The return of the short-duration fixed-income component was flat, 11 bp above the 0–3 year government benchmark. EM bonds and corporate bonds ended the fiscal year with positive returns in line with their performance in the EA. The other TA portfolios recorded a small loss of 8 bp. The performance of these portfolios, which consist mainly of deposits and short duration BIS instruments, were impacted by rising yields and the very limited income cushion of these instruments.

Table 2. IA and TA Portfolio Summary as of end-April 2021

(Returns are net of fees, in percent, unless otherwise noted)

	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	FY2020	FY2021	Strategy ITD	Strategy Inception Date
Figures expressed in USD 1/								
Total Endowment (EA)	**6.72**	**0.15**	**8.10**	**3.66**	**0.61**	**19.76**	**6.11**	**Mar-14**
Endowment - Passive	**6.74**	**0.21**	**8.12**	**3.65**	**0.52**	**19.86**	**6.12**	**Mar-14**
Fixed Income	**2.75**	**0.19**	**1.26**	**(0.91)**	**6.49**	**3.29**	**3.74**	**Mar-14**
DM Sovereigns	0.77	(0.78)	(0.73)	(2.57)	10.73	(3.30)	3.26	Mar-14
DM Corporates	3.54	0.20	0.79	(0.72)	5.04	3.81	3.89	Mar-14
EM Bonds	5.37	1.09	4.45	(3.17)	2.90	7.74	2.37	Mar-14
DM Inflation-Linked Bonds	2.87	0.68	2.42	0.65	5.69	6.78	4.64	Mar-14
Infrastructure Debt	--	--	0.77	(0.46)	--	--	0.05	Oct-20
Equities	**13.56**	**0.24**	**18.47**	**9.55**	**(8.32)**	**47.75**	**9.75**	**Mar-14**
DM Equities	13.04	0.29	17.69	11.15	(4.83)	48.30	10.74	Mar-14
EM Equities	18.19	2.59	21.00	3.09	(12.58)	51.23	7.35	Mar-14
REITs	6.34	(4.69)	17.18	15.41	(17.71)	37.06	7.07	Mar-14
Endowment - Active	**6.26**	**(1.13)**	**7.65**	**3.96**	**2.55**	**17.57**	**6.55**	**Aug-16**
GED + 3 percent 2/	**1.32**	**1.32**	**1.32**	**1.32**	**5.60**	**5.40**	**5.27**	Mar-14
Figures expressed in SDR 1/								
Fixed-Income Subaccount (FI)	**0.37**	**0.07**	**0.16**	**(0.08)**	**1.93**	**0.52**	**1.02**	**Aug-16**
Tranche 1	**0.55**	**0.10**	**0.22**	**(0.02)**	**1.79**	**0.86**	**1.04**	**Aug-16**
Tranche 2	**0.04**	**0.01**	**0.04**	**(0.21)**	**2.23**	**(0.13)**	**1.04**	**Mar-17**
Tranche 2 Buy & Hold	0.13	0.00	0.03	(0.26)	3.00	(0.09)	1.24	Mar-17
Legacy portfolio	(0.15)	0.02	0.02	0.03	1.23	(0.08)	--	
3m SDR rate 3/	0.02	0.02	0.02	0.02	0.77	0.08	0.58	Aug-16
3m SDRi index 3/	0.01	0.01	0.03	0.02	1.06	0.08	0.59	Aug-16
ML 0-3 Year Index 3/	(0.09)	0.01	0.01	(0.04)	2.31	(0.12)	0.79	Aug-16
ML 0-5 Year Index 3/	(0.08)	(0.03)	(0.01)	(0.21)	3.22	(0.34)	1.18	Mar-17
Figures expressed in SDR 1/								
Total Trust Assets (TA)	**2.30**	**0.26**	**3.00**	**1.32**	**1.27**	**7.04**	**3.09**	**Dec-17**
PRGT Assets - Pooled	**2.50**	**0.28**	**3.24**	**1.43**	**1.27**	**7.64**	**3.28**	**Dec-17**
Liquidity component (BIS Deposits)	0.01	0.00	0.01	(0.02)	0.58	0.00	0.44	
Short Duration Fixed Income	0.05	(0.02)	0.09	(0.11)	2.28	0.00	1.17	Dec-17
DM Corporates	3.23	0.21	0.83	(0.93)	3.81	3.34	4.54	Dec-18
EM Bonds	1.74	1.21	2.29	(2.83)	4.48	2.35	4.02	Oct-18
Equities	10.64	1.03	16.02	9.11	(5.48)	41.49	16.03	Oct-18
DM Equities	9.37	0.32	15.05	11.53	(2.99)	40.78	16.40	Oct-18
EM Equities	13.63	2.72	18.50	3.39	(11.43)	43.00	14.97	Oct-18
Legacy Portfolio	0.10	0.05	--	--	1.36	--	--	
BIS Deposits (Non-Pooled PRGT)	0.16	0.02	0.02	0.02	0.97	0.22	--	
Other Trust Assets	**0.03**	**0.03**	**0.01**	**(0.10)**	**1.52**	**(0.08)**	**0.87**	**Dec-17**
6-Month SDR Rate	0.02	0.01	0.03	0.02	0.77	0.10	0.70	Dec-17
ML 0-3 Year Index 3/	(0.09)	(0.02)	0.01	(0.04)	2.31	(0.12)	1.08	Dec-17

Sources: State Street and IMF staff calculations; OBP for GED.

1/Portfolio returns are in percent (unless otherwise noted) and net of fees. Fees include management and custody fees in addition to other fees, such as index fees. Returns over one year are annualized. Figures for partial periods are not presented. Excess returns are over the applicable benchmark.
2/ The Global External Deflator (GED) plus 3 percent is the long-term return objective of the EA.
3/ Benchmarks: Three-month SDRi is the opportunity cost for the FI. Three-month SDR Index is the market index based on SDRi. ML 0-3 is the reference benchmark for FI-Tranche 1. ML 0-5 is the benchmark for FI-Tranche 2 buy and hold portfolio. ML 0-3 is the benchmark for the PRGT Short Duration Fixed Income portfolio.

C. Risk Controls, Compliance, and Reporting

16. In FY2021, investments in the IA and TA conformed to the established risk limits and investment guidelines with a few minor exceptions. Portfolio compliance with all investment guidelines is monitored daily (Annex II presents portfolio exposures as of April 30, 2021). Overall, the portfolios were managed in compliance with established parameters, including duration, credit, and issuer limits with the exception of a few minor instances which are not unusual in these types of complex investment mandates. These cases were all resolved quickly with no financial impact and any minor costs resulting from manager errors were reimbursed promptly. Staff continuously reviews measures to mitigate the likelihood and potential impact of any future compliance failures through on-going communication with external managers.

17. In April 2021, both the EA passive and the PRGT were rebalanced to their SAA. This rebalancing was triggered by their equity allocation reaching their respective upper limits (6 percentage points for the EA and 3 percentage points for the PRGT). For the EA passive, the rebalancing led to a reduction in DM/EM equities and an increase in DM sovereign bonds and US TIPs. At the same time, cash was raised to fund future capital calls for private infrastructure debt. For the PRGT, the rebalancing consisted of a reduction in DM/EM equities and an increase in corporate bonds, short duration fixed income and liquidity components.

18. Middle- and back-office functions were carried out by the Fund's global custodian, State Street Bank and Trust Company (SSBT) with no major issue arising. These functions cover trade settlement, securities operations, custody of assets, as well as performance, risk, and compliance services. Investment Unit staff oversaw the adequacy of controls and compliance with the custody service agreement through ongoing interactions, including regular calls and review of required reports. During the fiscal year, there were no issues related to SSBT operations.

19. This year's Annual Report includes a summary of management and custody fees for each main portfolio (Annex III). Since FY2020, the Annual Report has presented portfolio performance net of investment management and custody fees. The Global Investment Performance Standards (GIPS) require asset owners to report investment returns net of all fees and expenses. While the Fund is not bound by GIPS, staff believes that reporting on a net basis improves transparency and is best practice for institutional investors.

D. Responsible Investing

20. Investment arrangements for the IA and TA pay close attention to best practice for responsible investing. As reported to the Board on previous occasions,[11] the IOC has established investment arrangements in line with the Rules and the Guidelines while also being mindful of ESG (Environmental, Social, and Governance) considerations. These arrangements focus on: (i) the integration of ESG considerations into the investment process to identify portfolio risks and

[11] See *Annual Report of the Investment Account and Trust Accounts for FY2020*, (EBS/20/134, 07/27/2020).

opportunities so as to improve long-term performance and (ii) responsible ownership practices that consider ESG issues to positively impact corporate behavior and generate sustainable value.

21. In reviewing existing manager practices, staff has assessed their capacity to integrate ESG considerations into the IA and TA portfolios. In the past year, managers have increased their focus on integrating climate metrics and risk analysis in their investment processes. In particular, they continued to advance portfolio-level reporting, presenting ESG exposure, risks, and climate-related disclosures. Guidance from the Task Force on Climate-related Financial Disclosures (TCFD) and the EU's Sustainable Finance Disclosure Requirements (SFDR) have provided managers the bases for these disclosures. With environmental and climate issues embedded into their processes, some managers have also identified impact investment opportunities; notably, infrastructure debt funds have included projects in the renewable energy sector.

22. External managers have also strengthened their engagement practices. In the past year, staff enhanced its annual due diligence on stewardship. Staff noted that managers increased resources allocated to their stewardship programs to improve the scope, depth, and impact of their engagements as well as the reporting of these efforts. Specifically, managers for equity mandates have more effectively used proxy voting to influence companies and address long-term strategy and risks related to ESG factors and improve related disclosure.

23. Furthermore, managers have reaffirmed their participation in industry wide ESG initiatives such as the UNPRI and joined other industry groups. All private sector managers for the IA and TA continued their UNPRI memberships and attained overall scores that equaled or exceeded the UNPRI median scores; compared to the previous year, managers' overall scores remained consistent or improved. Long-standing public sector partners —the World Bank Treasury and the BIS — who have provided investment services for the Fund for over two decades, are not UNPRI signatories, but have prioritized ESG incorporation into their investment processes. Finally, given the growing industry momentum to act on global net-zero commitments, managers joined groups such as the Institutional Investors Group on Climate Change and UN convened Net-Zero Asset Owner Alliance. These groups are focused on developing investment approaches for meeting these commitments primarily through more effective engagement.

24. During the June 2021 informal Board meeting on the Review of the IA and TA, staff presented an approach to formalize a commitment to responsible investing.[12] Based on Directors' feedback, a proposal will be presented to the Board later in FY2022 at the time of the Review of the Investment Strategy of the IA and TA .

[12] See *Responsible Investing for the Investment Account and Trust Assets* (FO/DIS/21/75, 05/19/2021).

RETURN OUTLOOK AND RISKS

25. This section discusses the return outlook and risks for the IA and TA portfolios. Model portfolios for the EA and PRGT are based on their respective SAA and incorporate key risk characteristics of each asset class. For the FI, the proxy portfolio incorporates the current duration and spread characteristics of the two tranches with assumptions for active management in Tranche 1. Forward looking projections on asset class risk and returns are based on a simulation tool and capital market assumptions by ORTEC Finance. The baseline scenarios used for all portfolios assume interest rates remain close to current levels over the short to medium term, as major central banks committed to highly accommodative monetary policy. A slow but gradual normalization of interest rates in developed markets is assumed in the long-term, where rates are currently far below their historical trend. Investment grade corporate spreads are expected to be relatively stable on the back of projected positive economic developments. The expected returns for equities are negatively affected to some extent by the significant rally in risk assets since March 2020 and related valuation gains. Higher uncertainty is built into the baseline scenarios, including for inflation.

A. Endowment Subaccount

26. The return outlook for the EA strategy is challenging. While the EA strategy has performed well against its 3 percent real return target since inception, current market conditions present a significant challenge for forward-looking return expectations, as discussed with Directors during the June 2021 informal Board meeting.[13] Under the current projections, the strategy is expected to return around 1.8 percent in real terms, lower than last year's central projections (2.2 percent). The probability that the EA strategy will achieve the 3 percent target over the long term is only around 27 percent, given its relatively conservative risk posture compared with typical endowments (Figures 11).

B. FI Subaccount

27. Over a 3-4 year investment horizon, the FI strategy is expected to achieve a positive margin over the SDR interest rate, albeit less than in recent years. Given current low SDR rates, compressed term premia, and the expectation of low yields for an extended period, it is expected that the strategy will achieve a lower margin over the SDR interest rate compared with past performance. Based on proxy portfolio simulations, the likelihood that the FI strategy will exceed the SDR interest rate over a 3-year horizon is about 76 percent, with an expected average margin of 35 bp (Figures 12.a and 12.b). The return margin for the actively managed T1 is expected to be slightly higher than for T2, reflecting additional risk premia from the broader set of eligible assets. Estimated downside risk remains limited, as envisaged for this strategy (Figures 12.c).

[13] See *Review of the Investment Account and Trust Assets Investment Strategy—Initial Considerations*, FO/DIS/21/75, 5/19/21

Figure 11a. Projected EA Returns over 5-year and 15-year Horizons

(real terms, annualized; in US dollar terms)

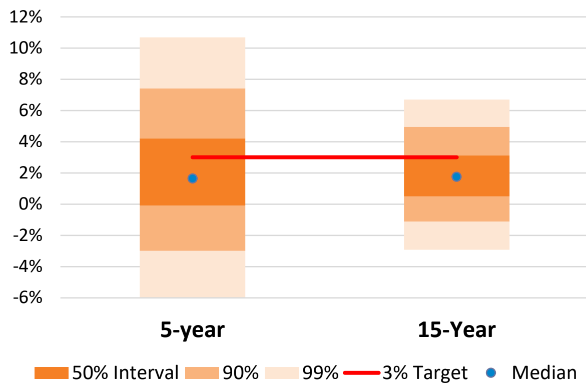


Figure 11b. Probability of EA Outperforming Real Return Targets

(over 5-year and 15-year horizons)

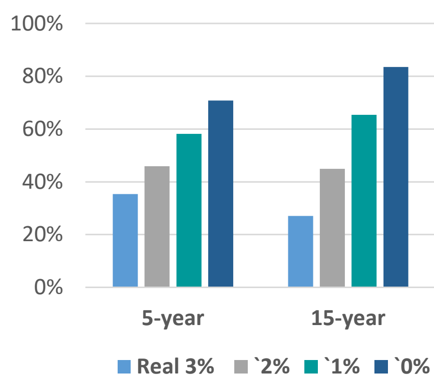
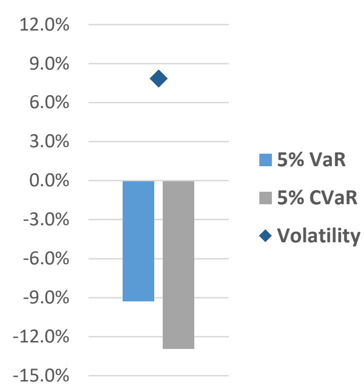


Figure 11c. EA Risk Statistics on Annual Returns

(15-year horizon)



Sources: ORTEC and staff analysis, end-March 2021.

Figure 12a. Projected FI Return Margin over the SDR Interest Rate over a 3-year Horizon

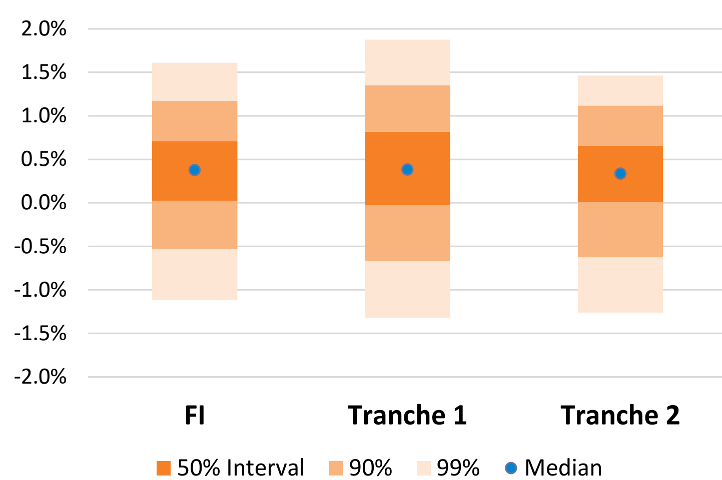


Figure 12b. Probability of FI Achieving Return Margins
(over 3-year horizon)

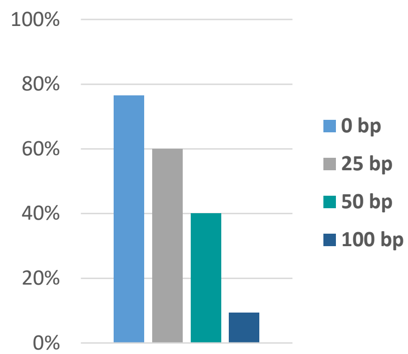
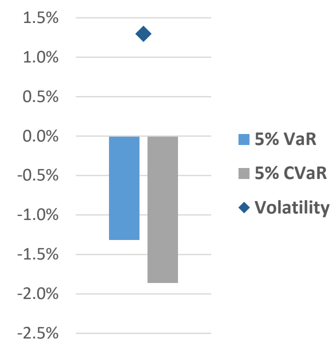


Figure 12c. FI Risk Statistics on Annual Returns
(3-year horizon)



Sources: ORTEC and staff analysis, end-March 2021. Staff assumptions on proxy indices and excess return estimates including benchmark duration of 1.8 years and Group 2 credit assets of 26 percent for the FI portfolio.

C. PRGT Portfolio

28. The PRGT strategy is well positioned to achieve its return target over the strategy's long-term investment horizon. Portfolio simulations show an estimated 80 percent probability that the PRGT portfolio will achieve the 90 bp target margin above the SDR interest rate over a 15-year horizon (Figures 13.a and 13.b), and a 76 percent probability over 10 years. Over a shorter 5-year horizon, the distribution of projected return margins is more uncertain (Figures 13.a). With the expanded asset classes now fully phased-in, the PRGT strategy will exhibit higher short-term variability in investment returns than in the past, as expected, as well as greater downside risk on an annual basis (Figures 13.c).

Figure 13a. Projected PRGT Return Margin over the SDR Interest Rate over 5-year and 15-year Horizons

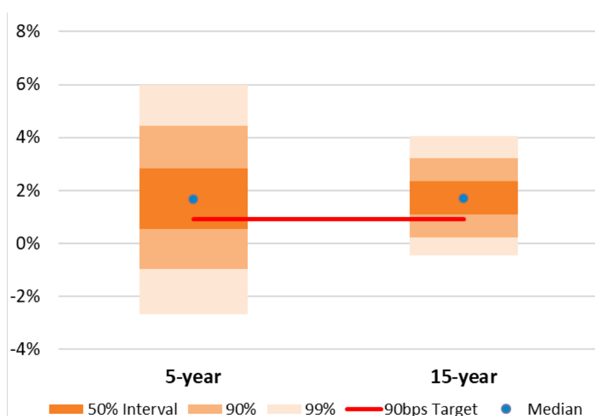


Figure 13b. Probability of PRGT Achieving Return Margins
(5-year and 15-year horizons)

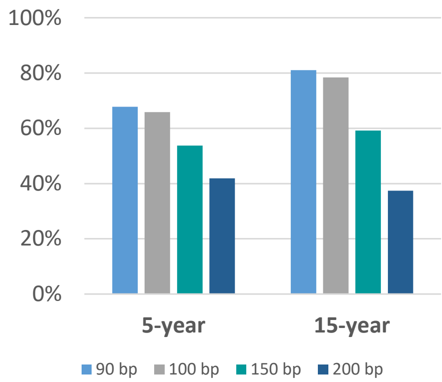
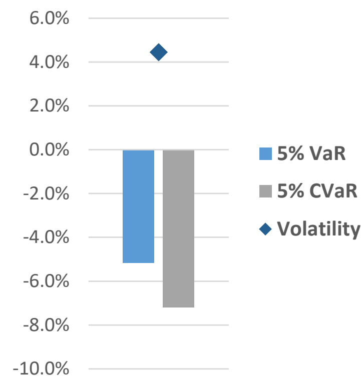


Figure 13c. PRGT Risk Statistics on Annual Returns
(15-year horizon)



Sources: ORTEC and staff analysis, end-March 2021.

Annex I. Market Data

		Close on April 30 , 2020	Close on April 30 , 2021	Change in FY21 (in bp unless otmerwise noted)	
SDR government bond yields (%)	US 3 Mo Treasury Bills	0.10	0.01	↑	-9
	US 2 Yr Government Bonds	0.20	0.16	↑	-4
	US 5 Yr Government Bonds	0.36	0.85	↓	49
	US 10 Yr Government Bond	0.64	1.63	↓	99
	Germany 3 Mo Bills	-0.57	-0.63	↑	-6
	Germany Govt 2 YR Bonds	-0.76	-0.68	↓	8
	Germany Govt 5 YR Bonds	-0.76	-0.58	↓	19
	Germany Govt 10 YR Bonds	-0.59	-0.20	↓	38
	UK Treasury 3 Mo Bills	0.12	0.04	↑	-8
	UK Govt 2 Year Bonds	0.02	0.08	↓	6
	UK Govt 5 Year Bonds	0.09	0.39	↓	30
	UK Govt 10 Year Bonds	0.23	0.84	↓	61
	Japan 3 Mo Bills	-0.15	-0.11	↓	4
	Japan Govt 2 Yr Bonds	-0.18	-0.12	↓	5
	Japan Govt 5 Yr Bonds	-0.15	-0.08	↓	7
	Japan Govt 10 Yr Bonds	-0.03	0.10	↓	13
	China Govt 3 Mo Bills	0.89	1.93	↓	103
	China Govt 2 Yr Bonds	1.33	2.64	↓	131
	China Govt 5 Yr Bonds	1.79	2.96	↓	117
	China Govt 10 Yr Bonds	2.54	3.16	↓	63
	Synthetic 3 Mo SDR	-0.04	0.01	↓	6
	Synthetic 2 Yr SDR	-0.03	0.12	↓	15
	Synthetic 5 Yr SDR	0.10	0.51	↓	41
	Synthetic 10 Yr SDR	0.38	1.02	↓	65
Swap spreads and FX rates	USD 2 Yr Swap Spread	12	12	↑	-1
	EUR 2 Yr Swap Spread	44	21	↑	-23
	GBP 2 Yr Swap Spread	43	24	↑	-19
	JPY 2 Yr Swap Spread	13	10	↑	-3.2
	China Synthetic 2 Yr Swap Spread	21	7	↑	-14
	SDR 2 Yr Swap Spread	26	15	↑	-10
	Euro spot	1.10	1.20	↑	9.7%
	GBP spot	1.26	1.38	↑	9.8%
	JPY spot	107.2	109.3	↓	-1.9%
	CNY spot	7.06	6.47	↑	9.1%
	SDR spot	1.37	1.44	↑	5.1%
Market Indices	*Custom Fixed Income Indices*				
	DM Sovereign Bonds	133.0	128.8	↓	-3.2%
	US Tips 0-10 Years	211.1	225.7	↑	6.9%
	DM Corporate Bonds	134.2	140.9	↑	5.0%
	EM Bonds	103.7	111.8	↑	7.8%
	Equity Indices				
	MSCI World IMI Index (DM Equities)	1,779.6	2,640.1	↑	48.4%
	MSCI Emerging Market IMI Index	1,280.4	1,942.5	↑	51.7%
	FTSE DM REITS Index	1,654.4	2,270.1	↑	37.2%
	S&P 500 INDEX	2,912.4	4,181.2	↑	43.6%
	Euro Stoxx 50 Pr	2,927.9	3,974.7	↑	35.8%
	FTSE 100 INDEX	5,901.2	6,969.8	↑	18.1%
	TOPIX INDEX (TOKYO)	1,464.0	1,898.2	↑	29.7%
	Other Indices				
	CBOE Volatility Index	34.2	18.6	↓	-45.5%
	ML Option Vol Estimate	53.6	58.1	↑	8.5%
	Gold spot price	1,686.5	1,769.1	↑	4.9%
	Oil spot price	18.8	63.6	↑	237.5%

Sources: Bloomberg and staff calculations

Notes: Arrows indicate return impact

Annex II.a. Investment Account Asset Exposure

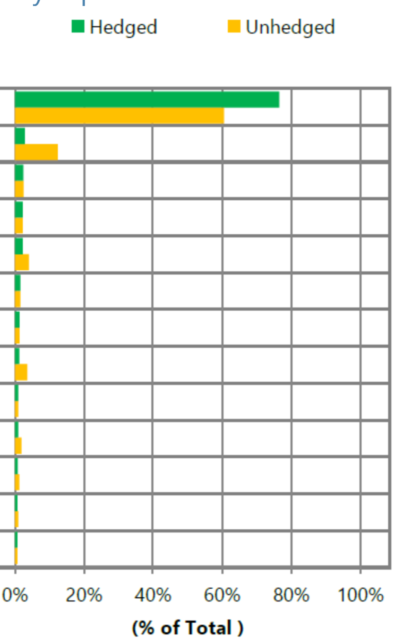
(April 30, 2021)

Endowment (EA) Asset Allocation

	Market Value (Millions)	Total % of Portfolio	Individual % of Portfolio	SAA % of Portfolio	Deviation From SAA(%)	Permitted Deviation from SAA
Passive	**8,795**	**95.6%**	**100.0%**	**100.0%**		
Fixed Income	**5,114**		**58.1%**	**60.0%**	**-1.9%**	**+/- 6%**
Dev. Market Sov. Bonds	1,281		14.6%	15.0%	-0.4%	
Inflation-Linked Bonds	1,812		20.6%	20.0%	0.6%	
Dev. Market Corp Bonds	1,474		16.8%	15.0%	1.8%	
Emerg. Market Bonds	397		4.5%	5.0%	-0.5%	
Infrastructure Debt	150		1.7%	5.0%	-3.3%	
Equities	**3,681**		**41.9%**	**40.0%**	**1.9%**	**+/- 6%**
Dev. Market Equities	2,254		25.6%	25.0%	0.6%	
Emerg. Market Equities	926		10.5%	10.0%	0.5%	
Real Estate Inv. Trust	501		5.7%	5.0%	0.7%	
Active	**409**	**4.4%**	**100.0%**	**100.0%**		
Fixed Income	211		51.6%	60.0%	-8.4%	+/- 15%
Equity	198		48.4%	40.0%	8.4%	+/- 15%
Total	**9,204**	**100.0%**				

EA Currency Exposure [1/]

	Unhedged (% of Total)	Hedged (% of Total)
USD	60.5%	76.5%
EUR	12.4%	2.8%
HKD	2.5%	2.4%
KRW	2.3%	2.3%
JPY	4.0%	2.3%
TWD	1.6%	1.6%
CNY	1.3%	1.3%
GBP	3.6%	1.2%
INR	1.0%	1.0%
CAD	1.9%	1.0%
AUD	1.2%	0.8%
CHF	0.9%	0.7%
THB	0.7%	0.7%



Source: State Street data.

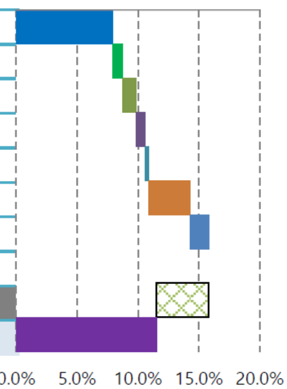
1/ Hedged currency exposure reflects the actual currency exposure of the portfolio. Unhedged figures exclude currency derivatives.

EA Credit Rating Exposure [1/]

	Market Value (Millions)	% of Portfolio
AAA	2,670	52.9%
AA	556	11.0%
A	1,060	21.0%
BBB	764	15.1%

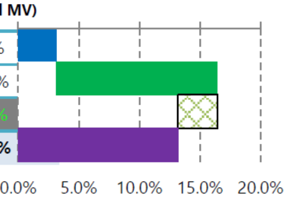
EA-Passive Value at Risk (VaR) [2/]

	% of Portfolio	Value-at-Risk (% of Total MV)
Developed Market Equities	25.6%	7.92%
Developed Market Inflation-Linked Bonds	20.6%	0.85%
Developed Market Sovereign Bonds	14.6%	1.06%
Developed Market Corporate Bonds	16.8%	0.76%
Emerging Market Bonds	4.5%	0.27%
Emerging Market Equities	10.5%	3.44%
Real Estate Investment Trust (REITs)	5.7%	1.50%
Infrastructure Debt	1.7%	0.00%
Diversification Benefit	-	-4.29%
Total	**100.0%**	**11.51%**



EA-Active Value at Risk (VaR) [2/]

	% of Portfolio	Value-at-Risk (% of Total MV)
Fixed Income	51.6%	3.16%
Equity	48.4%	13.29%
Diversification Benefit	-	-3.26%
Total	**100.0%**	**13.19%**

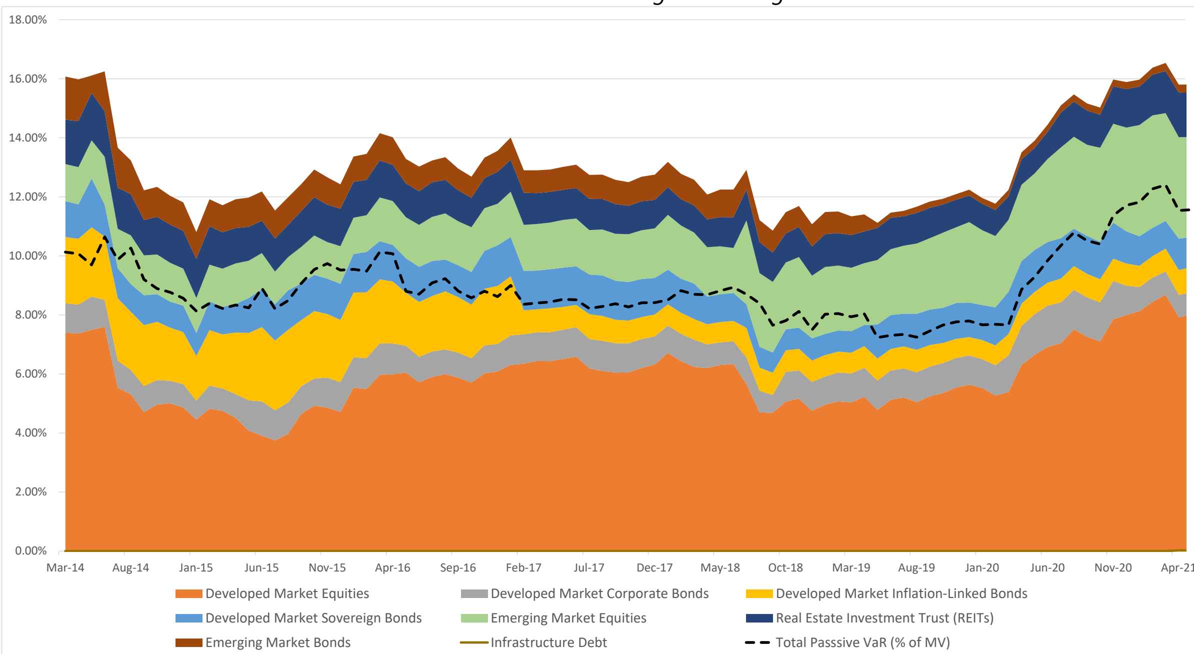


Source: State Street data.

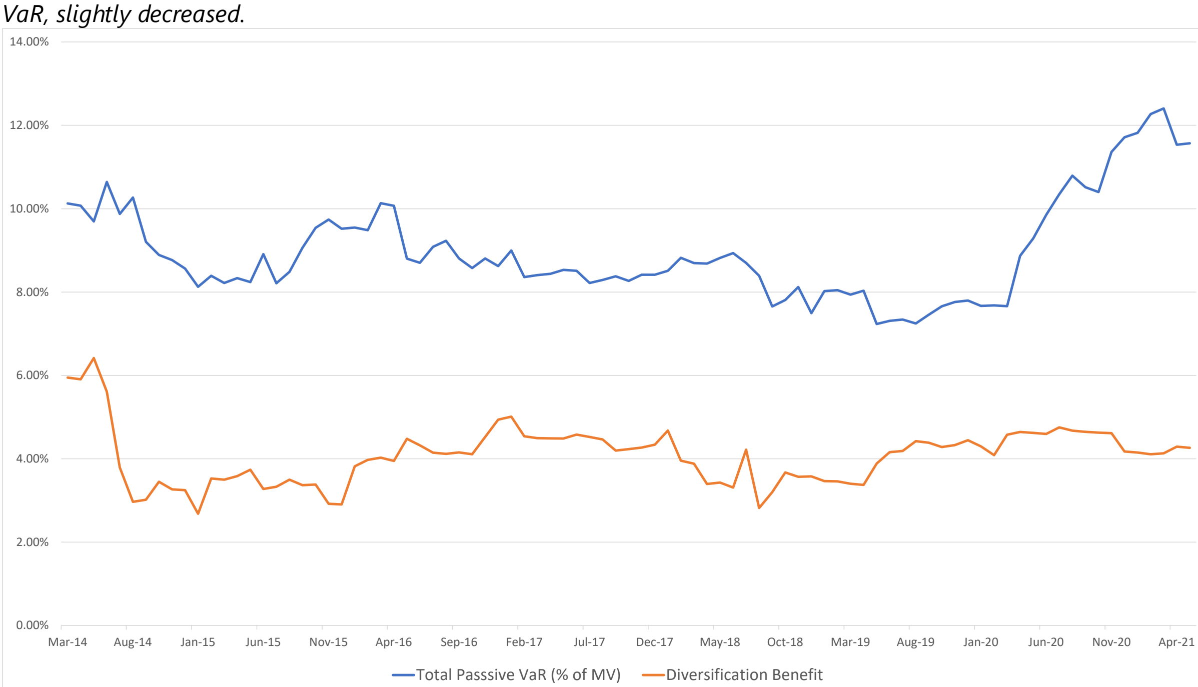
1/ Credit ratings as per Index Provider methodology.
2/ Value at Risk, at 95 percent confidence level, is estimated based on a historical simulation method using three-year look-back data; figures are annualized based on monthly observations. As of 4/30/2021, the invested portion of Infra debt accounted only for 0.2 percent of EA passive, the rest of the Infra debt component was in cash, pending capital calls.

EA Passive Historical Value-at-Risk

VaR rose in FY2021 but was still within a historical range. Higher volatility due to the pandemic crisis and an increase in the correlation across EA assets contributed to the higher reading ...



... The diversification benefit, as measured by the sum of the individual asset class VaR minus the aggregate portfolio VaR, slightly decreased.



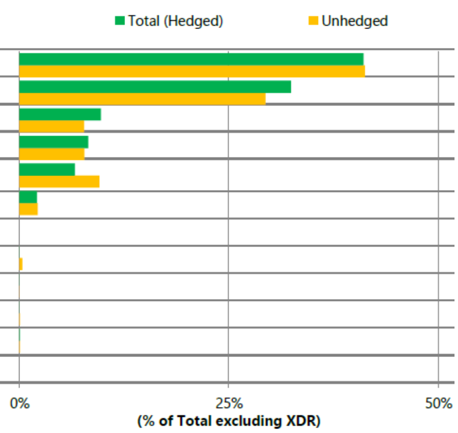
Source: State Street. The one-year 95 percent VaR is estimated based on a historical simulation method using three-year data.

FI – Group 1 & 2 Asset Exposure

	Market Value (Millions)	% of Portfolio	Max. permitted
Group 1 Assets	**12,735**	**76.9%**	**-**
BIS Obligations	2,557	15.4%	-
SDR Gov Securities	7,643	46.1%	-
IFI Securities	767	4.6%	-
Government Agency	1,768	10.7%	-
Group 2 Assets	**3,608**	**21.8%**	**35.0%**
Corporates	2,474	14.9%	-
Non SDR Gov Securities	374	2.3%	-
SDR Cash Instruments	56	0.3%	-
Asset-Backed Securities	417	2.5%	-
Covered Bonds	180	1.1%	-
Subnational Gov. Securities	106	0.6%	-
Other	**227**	**1.4%**	**-**
Cash + Cash Equivalents	229	1.4%	-
Exchange-Traded Futures + Options	7	0.0%	-
FX Forward	5	0.0%	-
Currency Swaps	(2)	0.0%	-
Total	**16,571**	**100.0%**	

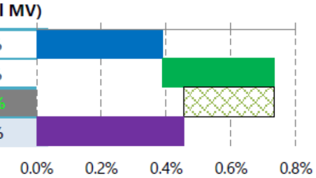
FI – Currency Exposure [1/]

		Unhedged (% of Total)	Hedged (% of Total)
SDR	USD	41.2%	41.0%
	EUR	29.4%	32.4%
	CNY	7.7%	9.7%
	GBP	7.7%	8.2%
	JPY	9.5%	6.6%
	CNH	2.1%	2.1%
Non-SDR	DKK	0.0%	0.0%
	CZK	0.3%	0.0%
	AUD	0.0%	0.0%
	CHF	0.0%	0.0%
	CAD	0.0%	0.0%



FI – Value at Risk (VaR) [2/]

	% of Portfolio	Value-at-Risk (% of Total MV)
Tranche 1	65.3%	0.39%
Tranche 2	34.7%	0.35%
Diversification Benefit	-	-0.28%
Total	**100.0%**	**0.46%**



Source: State Street data.

1/ Hedged currency exposure reflects the actual exposure of the portfolio. Unhedged figures exclude currency derivatives.
2/ Value at Risk, at 95 percent confidence level, is estimated based on a historical simulation method using three-year look-back data; figures are annualized based on monthly observations.

Annex II.b. Trust Account Asset Exposure

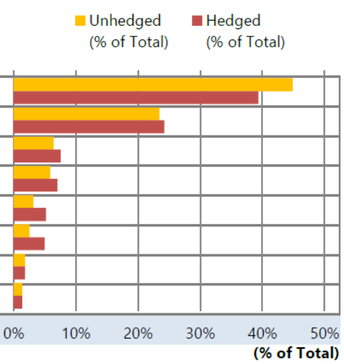
(April 30, 2021)

Trust Assets (TA) Asset Exposure

	Market Value (Millions)	% of PRGT	SAA % of PRGT	Deviation from SAA	Permitted Deviation from SAA
PRGT	**8,085**				
Short Duration Fixed Income	3,562	44.1%	45.0%	-0.9%	
Corporate Bonds	2,460	30.4%	30.0%	0.4%	
Equities	1,682	20.8%	20.0%	0.8%	+/- 3%
DM Equity	1,194				
EM Equity	488				
EM Bonds	382	4.7%	5.0%	-0.3%	
PRGT-Non Pooled-BIS Deposits	184				
Other TA	**451**				
Total	**8,720**	**100%**	**100%**		

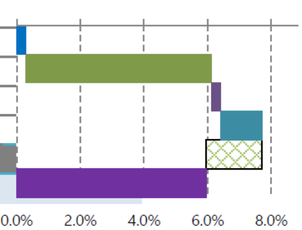
TA Currency Exposure [1/]

	Unhedged (% of Total)	Hedged (% of Total)
USD	44.8%	39.4%
EUR	23.4%	24.2%
JPY	6.4%	7.6%
GBP	5.9%	7.0%
CNY	3.2%	5.2%
CNH	2.5%	5.0%
KRW	1.8%	1.8%
HKD	1.3%	1.3%



PRGT – Value at Risk (VaR) [2/]

	% of Portfolio	Value-at-Risk (% of Total MV)
Short Duration Fixed Income	44.1%	0.29%
Equities	20.8%	5.83%
EM Bonds	4.7%	0.29%
Corporate Bonds	30.4%	1.30%
Diversification Benefit	-	1.76%
Total	**100.0%**	**5.95%**

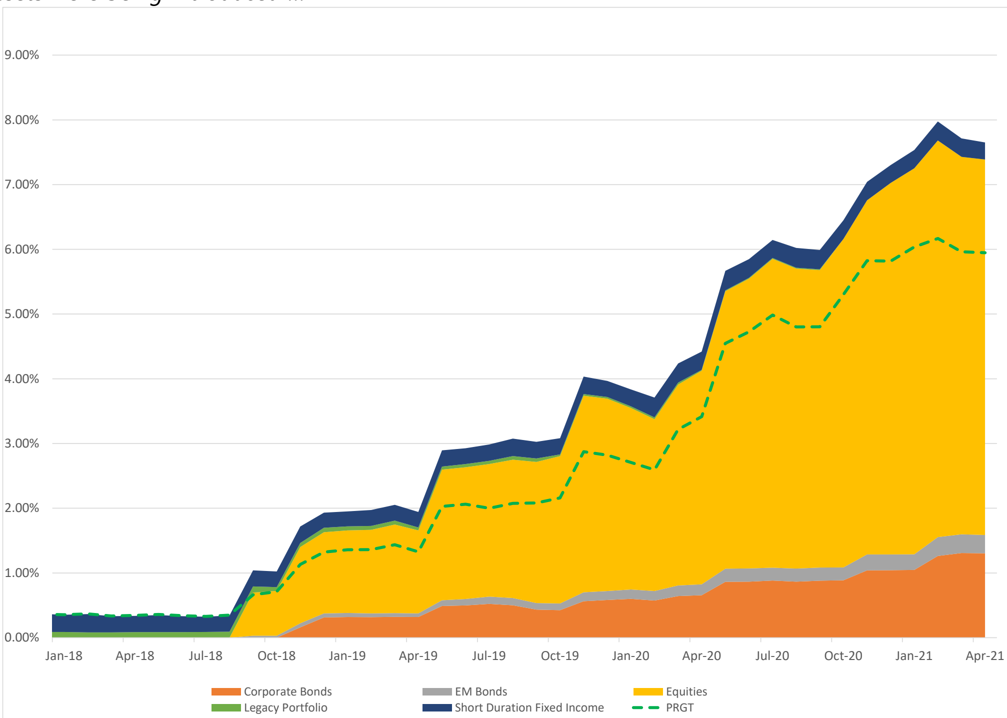


Source: State Street data.

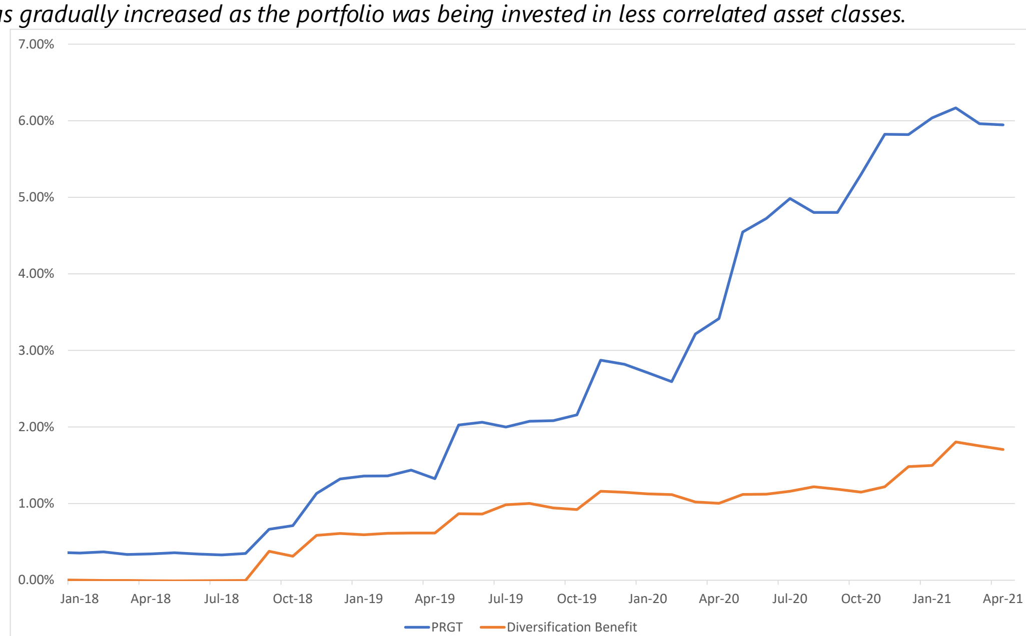
1/ Hedged currency exposure reflects the actual exposure of the portfolio. Unhedged figures exclude currency derivatives.
2/ Value at Risk, at 95 percent confidence level, is estimated based on a historical simulation method using three-year look-back data; figures are annualized based on monthly observations.

PRGT Historical Value-at-Risk

The phase-in of the PRGT its new SAA was completed in December 2020, resulting in a gradual increase of its VaR as risk assets were being introduced …



… the diversification benefit as measured by the sum of the individual asset class VaR minus the aggregate portfolio VaR, has gradually increased as the portfolio was being invested in less correlated asset classes.



Source: State Street. The one-year 95 percent VaR is estimated based on a historical simulation method using three-year data.

Annex III. Investment Management and Custody Fees in FY2021

	In millions of dollars	*In basis points*
Management Fees		
Endowment Subaccount		
Passive 1/	5.3	6.6
Active	1.3	34.0
Fixed-Income Subaccount 2/	9.1	4.8
Trust Assets 2,4/	4.6	5.6
Custody Fees		
Endowment Subaccount	1.6	1.9
Fixed-Income Subaccount 3/	2.3	1.2
Trust Assets 3,4/	2.0	2.4

Source: Staff's calculations based on actual fees paid during the fiscal year and estimated fees in instances where fees have not been paid yet. There are no performance-based fees.

1/ Includes corporate bonds and private infrastructure debt.
2/ No management fees are associated with BIS investments, which are managed internally.
3/ No safekeeping fees are charged for BIS instruments, but State Street charges small record-keeping fees of 0.125 bp for these instruments. At end-April 2021, BIS instruments represented about 18 percent of the FI and 25 percent of the TA.
4/ Only fees for PRGT are shown in the above table, which makes up about 95 percent of the Trust Assets. The PRG-HIPC and CCR Trusts are invested in BIS instruments and incur no management or safekeeping fees (only a small record-keeping fee of 0.125 bp).