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

We thank staff for the focused papers, outlining the investment strategy for both Investment Accounts (IAs) and Trust Assets (TA) and strengthening the Conflict of Interest (COI) Framework. We note that the investment approaches for the IAs and TA have generally achieved their objectives so far, and **broadly agree with the new strategic asset allocation proposals**. While the growing divergence between financial markets and the real economy together with the recent surge of global inflation pose unique challenges to investment management, a post-pandemic recovery, new technological trends, and advancements in market infrastructure provide new opportunities to deliver robust performance. We believe that the proposed ambitious strategy provides a good foundation to manage and control risks and strengthen accountability, and **it should soon allow the Fund to sign the UN Principles for Responsible Investing (UNPRI)**.

Investment strategies of the Endowment Account (EA), Fixed-Income Account (FI), and TA

While we see the reasoning for a qualitative analysis in the current uncertain juncture, the proposals would have benefited from a stronger quantitative analysis. Economic scenario generation and a full optimization across all asset classes is the standard in the contemporary investment industry and would have provided a more coherent understanding about the strategic asset allocation, where all the asset classes and interactions between them are considered simultaneously. Going forward, we suggest clearly explaining the assumptions and constraints behind the proposed portfolios and disclosing the expected risk and return for each asset class together with the correlation matrix. These enhancements will allow the readers to assess whether the proposal is taking the portfolio closer to an optimal allocation or further away from it. **As such, we are not able to assess whether the proposals are taking the portfolio closer to an optimal allocation or further away from it.**

The proposals for the EA demand further consideration. Although presented as refinements, these proposals to (i) reduce the allocation to low yielding fixed-income assets and improve diversification within the fixed-income allocation and to (ii) expand and diversify the allocation to real

assets seem significant. Expanding and diversifying the allocation of the EA to real assets seems appropriate under the current economic environment with heightened inflation risk. Given that the expected return per unit of risk is better compared to the current portfolio allocation in staff's simulations, it might improve the risk-return profile of the EA. However, it is important to note that the allocation has shifted away from risk-free assets (government bonds) towards equities, at a time when risk asset valuations are very high. Concerning Infrastructure or Real Estate (REITs) investment, specific risks associated with the asset class shall be kept in mind. *Could staff explain how it will distinguish between infrastructure equities and DM equities, as there seems to be significant overlap between these categories?*

We support the proposals to refine the FI and PRGT investment strategy. The proposals for the FI are more marginal compared to the ones for the EA but they are also aimed at adding riskier assets. Nevertheless, we can agree with the proposals. Again, while we cannot judge the value of the proposals from an optimality perspective, we agree that they broadly represent refinements of the framework, rather than an overhaul of it. The proposal for the PRGT focuses on increasing the liquidity of the trust, which is reasonable from a qualitative perspective given the increased liquidity needs. Increasing the core allocation to short duration fixed-income assets (SDFI) while reducing longer-dated corporate bond allocation shall help insulate the investment portfolio against the risk of interest rate rises, thus lowering volatility and enhancing the portfolio's reserve-like feature.

We believe that active management in compliance with the RI framework is key to achieve a meaningful responsible investing strategy for EA and FI and therefore should be expanded beyond EM equities. Among other things, it will allow a better selection of the Environmental, Social, and Governance (ESG) financial instruments and strengthen work to construct reasonable criteria for impact investing through incorporating green, social, and sustainable development goals (SDGs) bonds into the Fund's investments portfolio, either as a separate category or incorporated into the current fixed-income allocations.

Responsible Investing (RI) and COI Framework

We strongly support the proposal to formalize the IMF's commitment to RI and integrate the ESG principles into its Rules and Guidance. Integrating sustainability principles into the IMF reserve management strategies contributes to global ESG objectives and we expect it to be encouraging for member states around the world to have such practices established at International FIs. We invite staff to elaborate on the conclusion in the Annex VII/#3, (p.89) that "the integration of ESG considerations into the investment process improves long-term performance". In order to live up to its objectives, it is important that external managers get clear and binding instructions, which could be included in selection and monitoring criteria of external managers. *Staff comments are welcome.*

We commend the review of the Fund's framework for managing investment-related COI, provided in the supplement. We positively note that the framework has been effective so far given that avoidance of actual or perceived conflicts of interest is a crucial guiding principle in the Fund's investment activities, which preserves the reputational integrity of the institution. The key observations of the peer-benchmarking exercise also provide a sound ground for the proposed refinements to strengthen the Fund COI Framework. Based on these, **we support the proposed revisions to the IA Rules and the TA Guidelines.**