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Statement by Mr. Guerra and Ms. Arevalo Arroyo on Review of the Investment Account and Trust Assets Investment Strategy
(Preliminary)
Executive Board Meeting
January 12, 2022

We thank staff for a set of comprehensive reports on the Review of the Investment Account and Trust Assets Investment Strategy and the Review of the Framework for Managing Investment-related Conflicts of Interest. Given the challenging market environment, we believe that more flexibility is necessary in order to strengthen the investment portfolio's resilience and boost its return prospects. Against this backdrop, we support the overall strategy as presented by staff, although we still believe that there are sufficient arguments to revisit the long-term target of the Endowment Account (EA).

We support the proposals to refine the EA investment strategy but consider that there are compelling arguments to reduce the long-term real return target even after taking into account the proposals to increase the portfolio returns. Staff analysis included in the endowment subaccount section, in hand with the scenarios presented in Annex VI, shows long-term trends that point to lower future prospective returns, which in our view support a revision of the target at this stage. In particular, increasing debt levels, ageing demographics, and climate change increase the uncertainty around long-term return expectations. With only a 23 percent probability of achieving the 3 percent target over the next 15 years, the current target loses relevance as a guiding principle. Furthermore, achieving the return target requires, as stated in the report, unrealistically strong performance from equities or a significantly higher portfolio allocation to equities. We consider that changing the target in the current review would contribute to a more effective guidance principle of the investment strategies. A timely revision of the target at this stage would better serve the investment strategy in contrast to waiting to do it with a lag after some years of missing the target. *Can staff confirm that under the proposed new strategy for the EA, there is a 50% probability of achieving a 2 percent real return target?* Additionally, we support the modifications to the strategic asset allocation and investment strategy, including active management in the case of EM equities.

We support the proposals to refine the investment strategy of the Fixed Income subaccount. We highlight that the proposed changes build on the experience with the recently expanded investment strategy, sustaining the return performance without materially changing its risk profile. Nevertheless, we expect that a detailed analysis of the measures taken to ensure adequate risk controls will be presented in the next report to the Board, given the lowering of the minimum eligible credit rating threshold. While we support the inclusion of a 50 bp expected margin over the SDR interest rate, we would like staff to clarify over which horizon this specific objective will be assessed. *The objective is to minimize the negative returns and underperformance over a 3–4-year horizon, but staff analysis only uses the 3-year reference or the 5-year margins, including in its scenario analysis as presented in Annex VI. Can staff comment on the rationale for using the 3–4-year horizon as guidance?*

We support the proposals to refine the PRGT investment strategy and to add another investment option for PRGT contributor investments.

We agree with the proposal to formalize a commitment to responsible investing in the IA Rules and TA Guidelines. The IMF must support, through its investment strategy, broad industry initiatives that advance responsible investment and have an active role in this regard. *We would appreciate it if staff could confirm if the proposed General Principles for Responsible Investing will be published. We would also be interested in knowing if other outreach communication initiatives to increase transparency in responsible investing practices (in addition to the overview provided in the Annual Report and Financial Statements) will be conducted. Could staff elaborate on the role of the Executive Board in approving future changes to the General Principles for Responsible Investment? Clarification would be appreciated on how the consultation process with the Executive Board, as referred to in paragraph 7 of the Rules and Regulations of the Investment Account, will be implemented in the case of the responsible investment principles and arrangements.*

We support the proposed refinements to the conflict-of-interest framework. The IMF should continue to place great importance on the avoidance of actual or perceived conflicts of interest with respect to its investment operations. The current framework has served the Institution well, but we welcome the proposals to refine the institutional conflict framework, including the enhancement of the role of the Designated Officer and reducing the reliance on complex judgments. We look forward to the operationalization of the refinements. In addition, we commend staff for the extensive work done to make the review and comprehensive benchmarking exercise. From the report, it is clear that peers have also been refining their policies and practices to mitigate conflict of interest risks in response to changes in their public policies and market developments. *In this regard, can staff comment on the benefits of having a review of the conflict-of-interest framework on a regular review cycle in contrast to having a review when a new type of investment is put in place? What is the peer experience in this regard?*