Consortium

CGIAR

Approved by the Consortium Board on October 3, 2013 (CB13)

CGIAR Investment Policy Guidelines

Section 1: CGIAR INVESTMENT POLICY FRAMEWORK

1 Introduction

1.1 Consortium members' primary purpose is to conduct agricultural research in accordance with their founding documents. In this context, Centers are required to hold financial assets for a number of reasons. These include:

A. Cash held for working capital, operational needs or liquidity purposes. These are primarily on deposit at banks, other institutions or invested through money market funds.
B. Reserves, as established in accordance with the relevant Center Reserve Policy.
C. Fiduciary funds held for third parties that are invested in accordance with the owner's requirements or otherwise by this policy. There may be specific rules for investing such assets.

1.2 The amounts allocated between Category A and B will depend on the operational needs of the Center and its Reserves Policy. These amounts will in turn be derived from the cash flow prepared to show how much working capital and other funding is required, which together with a contingency for unexpected events and delays should allow the balance of funds to be considered for investments of a longer- term duration.

1.3 Assets held for operational reasons, such as equipment, buildings or other real estate would not be considered within the scope of this Policy.

1.4 This Framework is applicable to all Centers.

1.4.1 The policy requirements for bank deposits apply to all Centers regardless of the amount being invested;

1.4.2 The policy requirements for all other investments need only be applied by Centers which have investments other than bank deposits

1.5 The investment of reserves should take into account the costs of managing such funds both external and internal.

2 Investment Policy to be established by Centers

2.1 Each Center Board will approve an investment policy which addresses the investment of all financial reserves and cash (including funds held in a fiduciary capacity) as well as its investment governance arrangements.

2.2 The detailed contents of each Center's investment policy may vary. They should be, however, grounded in common investment objectives and principles set out in this Guideline.

3 Common Investment Objectives

3.1 The underlying philosophy is that investment decisions shall always prioritise preservation of capital ahead of optimizing investment returns.

3.2 Preservation of capital in real terms (that is after allowing for inflation) is a desirable objective but must not be pursued if there is high risk of substantive nominal losses.

3.3 Investment risk management, which is an inherent part of this policy, refers to various investment risks including credit, currency, liquidity, interest rate, duration and concentration, counterparty and country risk for all types of financial assets.

4 Common Investment Principles

To achieve the investment objectives, Centers should ensure that the following investment principles are included in their Investment Policy:

4.1. **Specify an adequately diversified portfolio of investments** in terms of asset classes, tenures, issuers and financial institutions.

4.2. Formally limiting exposure of funds to any individual bank, financial institution or other party, by **setting clear limits on the concentration risk in terms of the** proportion of funds which can be held by any one bank or institution and taking into account its financial capability.

4.3. Ensuring an objective view of credit risk by **restricting eligible financial institutions to those with a credit rating** issued by a recognised international or national rating agency or its subsidiaries, and that this rating is monitored.

4.4. **Setting clear guidance on the acceptable types of investments**.

4.5. **Prohibiting all financial investments in illiquid assets** (such as property/real estate), speculative assets (such as art, antiques or gems), structured investment (unless capital protected by institutions with excellent credit ratings), or the use of derivatives other than for hedging transactions.

4.6. **Prohibiting short selling, stock lending, sales of options, borrowing and leverage** whether in cash or through derivatives. **Setting the minimum credit rating** for each type of investment as "Investment Grade," as defined by any one of the reputable rating agencies (Standard and Poors, Moody's and Fitch). For investments in local currencies/local institutions (such as bank deposits/bonds/mutual funds), credit ratings from the reputable credit rating agencies of the respective countries should be relied upon.

4.7. **Allowing Investments to be made only in asset classes where ownership of the asset is registered in the name of the Center**. Assets should not form part of the Balance Sheet of the Custodian, Investment Manager or Broker. Investments should not be made in an account that holds assets of other entities.

4.8. **Investing in common investment vehicles** (or "funds") will be done only in well regulated jurisdictions; these include for example the EU, Canada, Australia, Japan, Singapore, Hong Kong and Switzerland or USA and specifically exclude hedge funds.

4.9. **Direct holdings of individual equities are not generally considered suitable** investments but may be appropriate in certain circumstances (e.g. donation and bequests or capital assets held for the use of the Center where the donor has explicitly allowed this type of investment in order to maximize potential returns).

4.10. **Ensuring an internal review process when investing in more complicated strategies** (than deposits for example) so that the underlying risks are clearly understood and formally documented by the Center.

4.11. **Managing exposure to foreign exchange fluctuations, the currency of investments** and, where approved by the Center's Board, incorporating guidelines on the use of hedging transactions such as foreign exchange.

4.12. **Conducting formal reviews of all the financial assets and the portfolio as a whole at regular intervals**, (at least six monthly and more frequently in times of financial stress) to include reviewing the financial health of banks and financial institutions to which the Center has taken on the risk or invested, and an assessment of the risk of exposure to any particular country.

4.13. **Providing guidance on cash efficiency** (i.e. minimise idle cash) while balancing liquidity needs.

4.14. **Clearly stating appropriate performance benchmarks** and that performance should be measured against these established benchmarks.

5 Contents of Investment Policies - General

5.1 The Investment Policy shall include all the Common Investment Principles

5.2 Each Center is expected to incorporate policies on managing cash

5. 3 The investment strategy is the approach to managing financial assets in the Center and should be formulated in accordance with the investment policy. The documented investment strategy addresses:

5.4..1. the general investment approach (including use where appropriate, of external advisors if investment in financial instruments other than bank deposits is envisaged).

5.4..2. strategic allocation of financial assets between investment classes (e.g. cash, bank deposits, government bonds, equities etc. including a tolerable range around these targets).

5.4..3. risk profile of the strategy (market risk, financial institution concentration risk, credit risk, inflation risk, country exposure, currency risk etc.).

5.4..4. The method of measuring performance such as the use of benchmarks.

5.5 Each Center is responsible for deciding on the types of investments in which to invest, in line with the General Common Investment Principles

5.6 Each Center's investment policies must state the types of investments authorized for inclusion and those specifically excluded in their respective investment programs.

5.7 Each Center shall set out its procedures for evaluating, approving and monitoring financial investment assets.

5.8 The approach in the Investment Policy to risk and the Common Investment Principles described above should be tailored by each Center to the needs and complexity of the investment decisions that each Center Board considers appropriate.

6 Contents of Investment Policies - Center Boards' responsibilities

6.1 Investment policy is ultimately the responsibility of the Center Board which functions as the governing fiduciary body, on behalf of key stakeholders.

6.2 The policy should support good governance which means that that Center boards should:

6.2..1. Recognize their fiduciary position of trust in relation to the management of financial assets on behalf of key stakeholders.
6.2..2. Ensure that appropriate board and management skills are available to make informed investment decisions.
6.2..3. Establish the process by which investment decisions are made and the staff accountable for decision making.
6.2..4. Approve the Center's Investment Policy and its broad investment strategies.
6.2..5. Oversee the Center's investing activities to ensure that they are managed prudently, in accordance with the overarching CGIAR investment policy guidelines.
6.2..6. Ensure that management, staff and board members disclose any conflicts of interest to the DG and/or Board Chair respectively, and that no official receives financial or non-financial benefit in connection with any aspect of investment decisions.

6.3 The policy should establish how each Board tackles competence level needs and how it obtains professional assistance if needed. For example: take into account and document the internal investment capabilities of the Board and management when setting their risk profile and ensure that there is adequate professional advice to manage the specified level of risk.

6.4 In planning their audit strategy, internal auditors should include treasury and investment management arrangements in their risk based audit planning

7 Contents of Investment Policies - Reporting to the Board

7.1 Each Center's management should report regularly on all investments (including Bank deposits) to its Board (through the appropriate Board Committee, normally the Audit Committee and/or Finance Committee) and at a minimum, every six months, and more frequently in times of stress in financial markets.

Each Center will have its own internal reporting requirements. As a guide, there should be monthly reporting on the investments made to the CFO/Director of Finance. Board Reports should contain the following minimum information as appropriate. This may be modified if the investment holdings comprise entirely term deposits:

7.1.1. Current portfolio composition showing a summary of assets classes and of all individual investments.
7.1.2. Performance of each investment since the previous and the previous year end.
7.1.3. Breakdown of performance, i.e. attribution of performance, indicating the main contributors and detractors, of each investment or of the sectors.
7.1.4. Summary of changes made in the portfolio since the previous report, together with the rationale for significant changes.
7.1.5. Discussion of management's key assumptions (e.g. economic and financial market) over the period and future expectations.

7.2 The report of any professional investment manager/advisor should be copied and sent directly to the Board,

8 Attestation of Compliance with the Investment Policy

8.1 The CFO/Director of Finance of the Centers' are required to provide the Board with an annual attestation of compliance with the investment policy. Compliance and/or deviations ("comply or explain") from the policy should be reported (with an explanation) in the minutes of the Board meeting.

8.2 A copy of the Attestation of Compliance Certificate should be sent to:

- the Center's head of Internal Audit and
- the CGIAR Consortium Office for information.

9 The Role of the CGIAR Consortium Board

9.1 The Consortium Board (CB) *inter alia* exercises financial oversight which is done through (1) the development and promulgation of financial guidelines; (2) monitoring the Centers' financial management arrangements; and (3) identifying and reporting significant risks and financial irregularities to stakeholders.

In the context of the development of and compliance with this Guideline, the CB will exercise these responsibilities through the following activities:

- development and periodic update of this Guideline,
- receipt and review of annual attestation of compliance with the investment policy from Centers,
- other periodic monitoring and reporting on investments as deemed necessary by stakeholders.

10 Internal Audit

10.1 The Centers Internal Auditor will provide a summary of any investment issues which emerge from all internal audits of the management of cash and investments to the Center's Board via the Audit Committee.

11 Implementation:

11.1 Each Center shall review this CGIAR Investment Policy Guidelines and prepare or revise as needed an investment policy in accordance with the timetable agreed by the Centre and the CO.

11.2 Centers shall account for their investments in accordance with the accounting policy set out in the CGIAR Financial Guideline No 2: Accounting Policies and Reporting Practices Manual.

11.3 Each Center's Board will approve the final Investment Policy

11.4 Each Center's Investment Policy will be sent to the Consortium Office.