Consortium

CGIAR

CB20-08
FOR GPCC ENDORSEMENT
AND RECOMMENDATION TO BOARD

Revised Investment Policy Guidelines

Purpose:

This paper provides, for endorsement of the Governance and Policy Coordination Committee (GPCC), and approval by the Board, Revised Investment Policy Guidelines. Following Board approval, the Revised Guidelines will be re-submitted to the Fund Council for approval.

The recommended decision point is set out below:

1. **Decision point: Approval of Revised Investment Policy Guidelines**
   The Board approves the Revised Investment Policy Guidelines as set out in Annex 1 to document number CB20-08, titled Revised Investment Policy Guidelines.

Part 1 – Introduction

1. This document is coming back to the GPCC (as successor to the Policy and Coordination Committee, PoCCo) after a major revision of the Revised Investment Policy Guidelines to take into account input from key stakeholders (Fund Council Governance Committee/Committee members, Center representatives, and Consortium Office staff).

2. The document is part of the Common Operational Framework (CoF) and requires approval of the Consortium Board (Board) and then the Fund Council (FC).

3. The Board approved an initial version of the Investment Policy Guidelines in October 2013 (CB13), and was submitted thereafter for FC approval.

4. The FC Governance Committee provided detailed comments on that approved document, via the Fund Office, in March 2015.

5. Based on those inputs, a draft amended version of the Investment Policy Guidelines was prepared by the Consortium Office and shared with Centers for their views and comments, based on which further changes were made. All the comments were valuable and enriched the document.

Part 2 – Revisions and recommended decision

6. Paragraphs 2, 4, 5, 7, 8, 10 and 11 have seen the most substantive amendment.

7. In the main, the changes: (i) strengthen the emphasis that certain elements are mandatory; (ii) put measures in place to fortify the element of the Board being able to cover its fiduciary obligations by the addition of a clause to the effect that the annual Letter of Assurance from the Center DGs (as approved by the Board at its Nineteenth meeting, 25 – 26 March 2015) should cover this (Clause 8.3); and (iii) add prudential guidelines in terms of asset allocation amongst asset classes and issuers.

8. The GPCC is referred to the following three documents:

   Annex 1 – Proposed Revised Investment Policy Guidelines, 30 April 2015

   Annex 2 – Matrix of revisions

   Annex 3 – Investment Policy Guidelines, October 2013

Annex 1

CGIAR Investment Policy Guidelines

CGIAR Consortium

[Date 2015]

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 should not be considered within the scope of this Policy.

1.4 This Framework is applicable to all Centers.

1.4.1 To mitigate against concentration risk, cash deposits shall be placed with more than one bank. 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 that have other investments in addition to bank deposits. These requirements are detailed in Clause 4 "Common Investment Principles".

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

2. Investment Policy to be established by Centers

2.1 Each Center Board shall 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 contents of each Center's investment policy shall be grounded in common investment objectives and principles set out in these Guidelines.

3. Common Investment Objectives

3.1 The underlying philosophy is that investment decisions shall always prioritize 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 shall be a key consideration in the determination of the assets to invest in. This shall be an inherent part of the investment strategy and asset allocation. Typical investment risks include credit, currency, liquidity, interest rate, economic, industry, inflation, duration concentration, counterparty and country risk.

4. Common Investment Principles

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

4.1 Specifying an adequately diversified portfolio of investments in terms of asset classes, tenors, issuers and financial institutions.

4.2 Formally limiting exposure of funds to any individual bank or issuer of equities and bonds, investment management company, 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 entity and taking into account its financial capability.

4.3 Ensuring an objective view of credit risk by restricting eligible financial institutions to only those with an "Investment Grade" credit rating issued by a recognized international, regional 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 currency and interest rate hedging transactions.

4.6 Prohibiting short selling, stock lending, sales of options, borrowing and leverage. Setting the minimum credit rating for each type of investment as "Investment Grade", as defined by any one of the reputable international, regional or national rating agencies, together with a disposition policy for downgraded investments.

4.7 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, or regional ones covering the country, should be relied upon.

4.8 Investments shall be made in asset classes where ownership of the asset is registered in the name of the Center and Center assets should not form part of the Balance Sheet of the Custodian, Investment Manager or Broker or be held in an account that holds assets of other entities. The exception to this is investments in mutual funds or collective investment units managed by reputable investment management companies and market clearing custodians and/or depositaries in well-regulated jurisdictions.

4.9 Direct holdings of individual equities are not permitted.

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. minimize idle cash) while balancing liquidity needs.

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

5. Contents of Investment Policies - General

5.1 The Investment Policy shall include the elements detailed in Clause 4 "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.

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

5.4.3 The risk profile of the strategy (e.g. 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 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 The 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 Center boards should:

6.2.1 Recognize their fiduciary position 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 board 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. Board Reports should contain the following minimum information as appropriate. This may be modified if the investment holdings comprise entirely of term deposits:

7.1.1 Current portfolio composition showing a summary allocation by asset class, sector and geographical exposure.

7.1.2 Performance of each asset class relative to its benchmark and comparison against the performance of the previous period and the previous year-end. Returns should be in US$ with the conversion rate for investments in other currency denominations as at the reporting date based on accepted market rates.

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.

7.1.6 At the end of every financial year, an annual report on the Center's investments should be submitted to the Center's Board of Trustees.

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

7.3 In the case where an external manager is contracted, the selection criteria should be based upon a common set of parameters which include quality of regulatory oversight over the manager, past investment performance analytics, length of corporate establishment, quality and stability of the investment team and corporate management, the manager's own asset limit conventions and restrictions, fee basis and reporting capabilities.

7.4 Monitoring against the mandate which the Center agrees with the external manager selected should take place at least quarterly. A re-evaluation of the performance of the external manager's mandate should take place at least every three years.

8. Attestation of Compliance with the Investment Policy

8.1 The CFO/Director of Finance and the Center DG of each Center are required to provide its 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.

8.3 The Center DG will provide attestation of compliance to the Consortium Board, through the annual letter of assurance.

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, on a consolidated basis, to stakeholders. In the context of the development of and compliance with these Guidelines the CB will exercise these responsibilities through the following activities:

- Oversight of the development and periodic update of these Guidelines;
- Receipt and review of annual attestation of compliance with the Investment Policy from Centers;
- receipt and review of significant and financial irregularities submitted by the Center Boards;
- Communicating key issues to major stakeholders at the end of each year and as and when major issues come up; and
- Other periodic monitoring and reporting on investments as deemed necessary by stakeholders.

10. Internal Audit

10.1 The Center's treasury and investment management will be audited on a regular basis, with the frequency determined as part of the audit plan approved by the Board of Trustees.

11. Implementation

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

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

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.