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IMF POLICY PAPER

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GUIDELINES FOR INVESTING PRG, RS, PRG-HIPC, AND CCR TRUSTS' ASSETS

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following document has been released:

Guidelines for Investing PRG, RS, PRG-HIPC, and CCR Trusts' Assets (the "Guidelines"), were adopted on April 13, 2022 in the context of the Board's consideration of the Proposal to Establish a Resilience and Sustainability Trust ("RST", see Attachment C) to establish the investment objectives and policies to guide the investment of investable assets of the RST, in addition to the PRG, PRG-HIPC, and CCR Trusts. These Guidelines were amended by the Executive Board on October 15, 2024 in the context of the Board's consideration of the 2024 Review of the Poverty Reduction and Growth Trust Facilities and Financing—Reform Proposals. The amended Guidelines are included in this document and replace the Guidelines for Investing PRG, PRG-HIPC, and CCR Trust Assets which was adopted on April 13, 2022.

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International Monetary Fund
Washington, D.C.

Guidelines for Investing PRG, RS, PRG-HIPC, and CCR Trusts' Assets

GENERAL PROVISIONS

Investment Assets

1. These Guidelines establish the investment objectives and policies to guide the investment of resources of the Poverty Reduction and Growth Trust ("PRG Trust"), the Resilience and Sustainability Trust ("RS Trust"), the Trust for Special Poverty and Growth Operations for the Heavily Indebted Poor Countries and Interim ECF Subsidy Operations ("PRG-HIPC Trust") and the Catastrophe Containment and Relief Trust ("CCR Trust") (each a "Trust," and collectively the "Trusts").

2. The resources of each Trust that are available for investment ("Investment Assets") shall be subject to these Guidelines.

Responsibilities of the Managing Director

3. The Managing Director is responsible for implementing the investment policies set out in these Guidelines.

4. In carrying out the Managing Director's responsibilities, the Managing Director shall (a) establish effective decision-making and oversight arrangements; (b) take the necessary measures, including the adoption of policies and procedures, that seek to avoid actual or perceived conflicts of interest; (c) adopt responsible investing principles that incorporate environmental, social, and governance (ESG) considerations into the investment process to support the investment objectives of the Trust Assets and to uphold the Fund's reputation; and (d) establish specific risk control measures and put in place mechanisms to monitor their observance by asset managers.

5. In connection with the adoption of measures under paragraph 4, the Managing Director shall consult with the Executive Board regarding key conflicts of interest policies and arrangements and responsible investment principles and arrangements.

6. The Managing Director shall provide annual reports to the Executive Board on the investment activities of the Trusts. Ad hoc reports shall be prepared as warranted by market or other developments.

External Asset Managers

7. The Investment Assets of the Trusts shall be managed by external managers, except that the Managing Director is authorized to manage: (a) investments in obligations of the Bank for International Settlements (BIS) and central bank deposits; and (b) other Investment Assets of the

Trusts on an interim basis following the termination of an external asset manager and pending the transfer of the assets to another external asset manager.

8. The Managing Director shall only select external asset managers of the highest professional standards and shall take into account their proven skills and track record suitable to achieve the investment objectives and to carry out the investment strategies set out under these Guidelines.

Custody Arrangements

9. The Managing Director shall establish adequate measures for the safekeeping and custody of the Investment Assets of the Trusts.

Audit

10. The Investment Assets of the Trusts shall be audited by the Fund's external auditors and included in the annual financial statements of the Fund.

Review of the Guidelines and Conflict of Interest Policies

11. The Executive Board shall review these Guidelines and the Fund's relevant conflict of interest policies at least every five years.

INVESTMENT OF ASSETS OF THE PRG TRUST

Investment Objectives and Portfolios

12. The Investment Assets of the PRG Trust shall be invested taking into account the purposes of these assets (a) to generate income to support the self-sustaining operations of the PRG Trust, (b) to provide security to lenders to the PRG Trust, and (c) to provide adequate liquidity for the PRG Trust's operational needs.

13. The Investment Assets of PRG Trust shall be invested in a (a) Long-Term Portfolio with the objective of generating a margin of 100 basis points above the three-month SDR rate, over a long-term investment horizon of at least 10 years, and (b) a Short-Term Portfolio with the objective of enhancing returns and providing liquidity to meet the short-term operational needs of the PRG Trust over a short to medium-term horizon. The specific allocation between the Long-Term Portfolio and the Short-Term Portfolio shall be determined by the Managing Director.

Target Asset Allocation

14. The Long-Term Portfolio shall be invested according to the following allocation target: (a) 40 percent in a short duration fixed-income component, (b) 30 percent in a component of corporate bonds, (c) 10 percent in a component of global government bonds, and (d) 20 percent in a component of global equities.

15. The Short-Term Portfolio shall be invested in a liquidity component designed to meet the short-term disbursement needs of the PRG Trust, and a short duration fixed-income component, with the specific allocation between these two components to be established by the Managing Director.

Eligible Investments and Investment Management

16. The liquidity component shall be limited to BIS deposits and central bank deposits, in each case with a maximum maturity of up to one year and denominated in SDR or currencies included in the SDR basket.

17. (a) The following guidelines and arrangements apply to the short duration fixed-income component:

i. The short duration fixed-income component shall consist of two tranches, a shorter-duration Tranche 1 and a longer-duration Tranche 2 and shall have a maximum average duration of 3 years.

ii. Tranche 1 assets shall be managed actively. Eligible asset classes for Tranche 1 are Group 1 and Group 2 asset classes as defined in paragraph 17(b) below.

iii. Tranche 2 assets shall be managed according to a buy-and-hold investment approach. Eligible asset classes for Tranche 2 are Group 1 asset classes as defined in paragraph 17(b) below.

iv. Asset transfers between Tranche 1 and Tranche 2 and the allocation to Tranche 1 and Tranche 2 of future inflows to, and outflows from, the short duration fixed-income component shall be determined by the Managing Director.

(b) The following guidelines shall apply to Group 1 and Group 2 asset classes:

i. "Group 1 asset classes" shall be limited to:

A. debt obligations issued by national governments of members or their central banks.

B. debt obligations issued by national agencies of members.

C. debt obligations issued by supranational institutions; and

D. obligations issued by the BIS, including without limitation deposits with the BIS and MTIs.

all of which shall be denominated in SDR or the currencies included in the SDR basket.

ii. "Group 2 asset classes" shall be limited to:

A. debt obligations issued by national governments of members, or their central banks denominated in non-SDR currencies selected by the Managing Director or, upon the authorization by the Managing Director, by external managers, provided that any currency selection shall be based on ex-ante criteria determined by the Managing Director.

B. debt obligations denominated in SDR or the currencies included in the SDR basket, comprising: (I) securities issued by subnational governments; (II) mortgage-backed and other asset-backed securities; (III) covered bonds; and (IV) short-dated unsecured corporate bonds; and

C. cash-equivalent investments with maturities of one year or less, that are denominated in SDR or the currencies included in the SDR basket.

(c) Up to the maximum 40 percent of the total value of the short duration fixed-income component may be invested in Group 2 asset classes, and the breach of this limit shall require prompt action to bring the short duration fixed-income component back within the established limit.

18. The Managing Director shall establish the parameters for determining the specific assets eligible for the corporate bond, global government bond and global equity components, and for duration and currency requirements for the corporate bond and global government bond components. On an exceptional basis, the Managing Director may permit the inclusion of debt obligations issued by national governments of members or their central banks in the corporate bond component.

19. The components of corporate bonds, global government bonds, and global equities shall be managed passively, with the exception of emerging market equities which may be managed actively.

20. In addition to investing in the assets as set out above, residual cash balances may be held temporarily uninvested, or in the short-term instruments sponsored by the custodian(s) or an affiliate.

Rebalancing

21. Based on modalities established by the Managing Director, the allocation of the Investment Assets in the Long-Term Portfolio of the PRG Trust shall be rebalanced at least annually to minimize deviation from the allocation targets under paragraph 14 above or more frequently in the event of significant deviation.

Minimum Credit Ratings

22. Except for obligations of the BIS, central bank deposits, uninvested cash balances and equities, all assets in which the PRG Trust invests must have a credit rating equivalent to at least BBB- for corporate bonds and BBB+ for all other assets (based on Standard & Poor's long-term rating scale) by a major credit rating agency at the time of acquisition. The Managing Director may establish higher credit ratings for eligible individual asset classes.

23. In cases where an asset is not directly rated, the Managing Director may determine whether a credit rating may be inferred for such asset in a manner that is consistent with market practice.

Divestment

24. Any eligible investment that ceases to meet the rating threshold under paragraph 22 or otherwise becomes ineligible after acquisition shall be divested within three months, except that corporate bonds which fail to meet the rating threshold under paragraph 22 after acquisition may be divested or continue to be retained in accordance with modalities established by the Managing Director.

Limits on Investment Activities

25. The Managing Director shall establish adequate safeguards against short selling and financial leverage.

26. Derivatives may be used for managing interest rate risk, currency hedging, or reducing costs in the context of portfolio balancing, benchmark replication and market access. The currency composition of the liquidity, short duration fixed income, corporate bond, and global government bond components shall be aligned with, or hedged to, the SDR basket composition.

INVESTMENT OF ASSETS OF THE RS TRUST

Investment Management and Objectives

27. The Investment Assets of the RS Trust shall be invested taking into account the purposes of these assets (a) to generate income to support RS Trust operations, (b) to provide security for RS Trust loans, and (c) to provide adequate liquidity for the RS Trust's withdrawal needs.

28. The Investment Assets of the RS Trust shall be invested in liquidity and short duration fixed-income components, with the specific allocation between these two components to be established by the Managing Director.

29. The liquidity component shall be managed to meet the operational needs of the RS Trust.

30. The short duration fixed-income component shall be managed in accordance with paragraph 32 below. The investment objective of the short duration fixed-income component of the RS Trust is

to achieve investment returns in SDR terms that exceed the 3-month SDR interest rate by a margin of 50 basis points over time while minimizing the frequency and extent of negative returns and underperformance over an investment horizon of three to four years.

Eligible Investments

31. The liquidity component shall be limited to BIS deposits and central bank deposits, in each case with a maximum maturity of up to one year and denominated in SDR or currencies included in the SDR basket.

32. (a) The following guidelines apply to the short duration fixed-income component:

i. The short duration fixed-income component shall consist of two tranches, a shorter-duration Tranche 1 and a longer-duration Tranche 2 and shall have a maximum average duration of 3 years.

ii. Tranche 1 assets shall be managed actively. Eligible asset classes for Tranche 1 are Group 1 and Group 2 asset classes as defined in paragraph 32(b) below.

iii. Tranche 2 assets shall be managed according to a buy-and-hold investment approach. Eligible asset classes for Tranche 2 are Group 1 asset classes as defined in paragraph 32(b) below.

iv. Asset transfers between Tranche 1 and Tranche 2 and the allocation to Tranche 1 and Tranche 2 of future inflows to, and outflows from, the short duration fixed-income component shall be determined by the Managing Director.

(b) The following guidelines shall apply to Group 1 and Group 2 asset classes:

i. "Group 1 asset classes" shall be limited to:

A. debt obligations issued by national governments of members or their central banks.

B. debt obligations issued by national agencies of members.

C. debt obligations issued by supranational institutions; and

D. obligations issued by the BIS, including without limitation deposits with the BIS and MTIs.

all of which shall be denominated in SDR or the currencies included in the SDR basket.

ii. "Group 2 asset classes" shall be limited to:

A. debt obligations issued by national governments of members, or their central banks denominated in non-SDR currencies selected by the Managing Director or, upon the authorization by the Managing Director, by external managers, provided that any currency selection shall be based on ex-ante criteria determined by the Managing Director.

B. debt obligations denominated in SDR or the currencies included in the SDR basket, comprising: (I) securities issued by subnational governments; (II) mortgage-backed and other asset-backed securities; (III) covered bonds; and (IV) short-dated unsecured corporate bonds; and

C. cash-equivalent investments with maturities of one year or less, that are denominated in SDR or the currencies included in the SDR basket.

(c) Up to the maximum 40 percent of the total value of the short duration fixed-income component may be invested in Group 2 asset classes, and the breach of this limit shall require prompt action to bring the short duration fixed-income component back within the established limit.

33. In addition to investing in the assets as set out above, residual cash balances may be held temporarily uninvested, or in the short-term instruments sponsored by the custodian(s) or an affiliate.

Minimum Credit Ratings

34. Except for obligations of the BIS, central bank deposits, and uninvested cash balances, all assets in which the RS Trust invests must have a credit rating equivalent to at least BBB- for corporate bonds and BBB+ for all other assets (based on Standard & Poor's long-term rating scale) by a major credit rating agency at the time of acquisition. The Managing Director may establish higher credit ratings for eligible individual asset classes.

35. In cases where an asset is not directly rated, the Managing Director may determine whether a credit rating may be inferred for such asset in a manner that is consistent with market practice.

Divestment

36. Any eligible investment that ceases to meet the rating threshold under paragraph 34 or otherwise becomes ineligible after acquisition shall be divested within three months, except that corporate bonds which fail to meet the rating threshold under paragraph 34 after acquisition may be divested or continue to be retained in accordance with modalities established by the Managing Director.

Limits on Investment Activities

37. The Managing Director shall establish adequate safeguards against short selling and financial leverage.

38. Derivatives may be used for managing interest rate risk, currency hedging, or reducing costs in the context of portfolio balancing, benchmark replication and market access. The currency composition of the liquidity and short duration fixed-income components shall be aligned with, or hedged to, the SDR basket composition.

OTHER TRUST ASSETS

Investment Objectives

39. The Investment Assets of the PRG-HIPC and CCR Trusts shall be invested to enhance returns subject to the liquidity requirements of each Trust while limiting the risk of impairment of capital over an investment horizon of no more than three years.

Eligible Investments

40. The Investment Assets of each of the PRG-HIPC and CCR Trusts shall be invested in a liquidity component and an investment component, with the specific allocation between the two components determined by the Managing Director.

41. The liquidity component shall be limited to BIS deposits and central bank deposits, in each case with a maximum maturity of up to one year and denominated in SDR or currencies included in the SDR basket.

42. The investment component shall be limited to marketable obligations issued by a member or by a national official financial institution of a member that are denominated in SDR; marketable obligations issued by a member or by a national official financial institution of a member whose currency is in the SDR basket and that are denominated in the currency of that member; marketable obligations issued by international financial organizations and denominated in SDR or in a currency in the SDR basket; and deposits with a commercial bank, a national financial institution of a member, or an international financial institution that are denominated in SDR or in a currency in the SDR basket.

43. The investment component shall have a maximum average duration of three years.

Investment Management

44. The liquidity component shall be managed to meet the operational needs of the respective trust.

45. The investment component shall be managed actively except for investments in obligations of the BIS and central bank deposits managed by the Managing Director.

Currency Composition Rebalancing

46. The currency composition of the Investment Assets of the PRG-HIPC and CCR Trusts shall be rebalanced periodically to the SDR basket composition.

Minimum Credit Ratings

47. Except for obligations of the BIS, central bank deposits and uninvested cash balances, all assets in which the PRG-HIPC Trust and CCR Trust invest must have a credit rating equivalent to at least A (based on Standard & Poor's long-term rating scale) by a major credit rating agency at the time of acquisition.

48. In cases where an asset is not directly rated, the Managing Director may determine whether a credit rating may be inferred for such asset in a manner that is consistent with market practice.

Divestment

49. Any eligible investment that ceases to meet the rating threshold in paragraph 47 or otherwise becomes ineligible after acquisition shall be divested within three months.

Limits on Investment Activities

50. The Managing Director shall establish adequate safeguards against short selling and financial leverage.

51. Derivatives shall be prohibited except for forwards entered into for purposes of currency hedging with eligible issuers under paragraph 42.

Use of Currencies

52. Investment which does not involve an exchange of currency shall be made only after consultation with the member whose currency is to be used, or, when an exchange of currencies is involved, with the consent of the issuers of such currencies.