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**INTERNATIONAL RENEWABLE ENERGY AGENCY**
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# Investment Policy of IRENA

## I. Purpose of the investment policy

1. This investment policy sets forth the process that the International Renewable Energy Agency (the "Agency") has adopted to make investment-related decisions with respect to the assets of the Agency.

2. The policy identifies the investment goals and objectives of the Agency, sets-out decision making processing for selecting investments, and specifies the procedures and relevant measurement indexes to be used in assessing on-going investment performance, in accordance with the stated investment objectives.

3. The investment policy will be used as the basis for measuring and evaluating future investment performance and will itself be reviewed, at least annually, by the Investment Committee and the Director-General. This policy and any future changes to this policy are subject to the approval of the Assembly.

### Authority

4. This investment policy is developed pursuant to Financial Regulation 9.9 Investments, which states that "The Director-General may make short-term investments of monies not needed for immediate requirements only in accordance with the investment criteria approved by the Assembly and shall periodically report to the Assembly on any such investments. In making investments, the Director-General shall place primary emphasis on minimising the risk to principal funds while ensuring the liquidity necessary to meet the Agency's cash flow requirement."

5. The selection of banks is made in accordance with the Financial Regulation 9.8 Banking, which states that "The Director-General shall designate the bank or banks in which the funds of the Agency shall be kept".

### Investment objectives

6. The objectives are to earn a competitive market rate of return on the portfolio (investment management) while preserving capital (risk management) and ensuring sufficient liquidity (liquidity management) to meet cash requirements. Investment quality, safety, and liquidity are to be emphasised over the absolute rate of return. The investment objectives are ranked below in order of importance:

- Preservation of capital;
- Liquidity; and
- Income (rate of return)

## II. Roles, responsibilities and procedures

7. The parties involved in the management of the investment assets include, but not limited to:

### Investment Committee

8. The membership of the Investment Committee is comprised of the Director, Administration and Management Services, the Chief Finance Officer and additional staff members of the Agency as designated by the Director-General. The Investment Committee shall supervise the investment of the assets of the Agency and make all decisions concerning selection and retention of the investment options available.

9. Accordingly, the Investment Committee shall have the authority both to select and monitor funds, and to appoint service providers as required such as investment advisors and investment manager.

10. Decisions of the Investment Committee on investment policy, the selection of investments, performance analysis and investment monitoring may be, but need not be, based on the recommendations of any investment advisor who may be engaged to advise the Investment Committee on such matters.

11. The Investment Committee shall create and maintain written records of all decisions relating to the choice and on-going monitoring of investment funds. Minutes shall be taken of all meetings, noting the place, attendees, matters discussed and decisions reached. The minutes shall document investigation, facts, and the reasoning that went into the making such decisions. Relevant documents or materials used by the Investment Committee in its decision making process maybe included or annexed in such minutes.

12. The Investment Committee shall promptly adopt written procedures for the conduct of meetings for decision making to be approved by the Director-General. The procedures shall include, but not be limited to: the frequency of meetings; quorum rules; the method

for calling regular and special meetings; the voting requirements; and special positions and duties of committee members. The secretary of the committee shall keep the minutes and written records, as described above.

**Investment advisors**

13. An investment advisor may be appointed to assist the Investment Committee in the overall supervision of the Agency's investments. In this role, the investment advisor will offer resources for additional due diligence as well as independent third-party analysis. More specifically, the investment advisor may offer guidance and recommendations to the Investment Committee in the selection and retention of investment options, the selection and retention of investment manager, where applicable, and assistance in the periodic monitoring of the investment fund's performance.

**Investment manager**

14. The investment manager may be approved who will be responsible for investing and managing the Agency's assets in accordance with this investment policy and applicable rules and regulations.

## III. General investment philosophy

15. Given the nature and funding of the Agency, the investment policy reflects conservatism and prudence. It is also recognised that financial risk exists even within the confines of a prudent investment policy, and that appropriate measures need to be available to manage such risk. The investment options shall be selected in order to:
    - provide a wide range of investment opportunities, so as to allow for diversification and cover a wide risk/return spectrum;
    - maximise returns within reasonable and prudent levels of risk;
    - provide returns comparable to returns for similar investment; and
    - control administrative and management costs

16. The Investment Committee shall select a diverse range of investment vehicles that will enable the Agency to meet its financial goals. The Investment Committee shall select

such investment vehicles based upon their stated investment objectives or investment type and historical performance.

17. The Investment Committee shall re-evaluate each investment vehicle based upon the foregoing criteria, no less frequently than annually, in order to determine the continuing sustainability of each option.

18. Asset classes currently permitted are money markets (savings/deposit accounts and short term – low risk securities including bonds and treasury bills) and marketable debt instruments (government and corporate bonds).

## IV. Investment options selection, monitoring and reporting

### Selection

19. The Investment Committee shall select the investment options based on the following selection criteria.
    - The investment option's volatility and performance relative to the benchmarks;
    - The investment option's demonstrated adherence to stated investment objectives;
    - Competitiveness of fees and expense ratios, compared with those of similar investments;
    - The Agency's size, structure, and history; management profile and investment philosophy; staff experience and depth; and commitment to research.

20. To ensure competitiveness of investments, rate quotations from at least three authorised counterparties should be obtained.

### Risk management

21. The essence of prudent financial management is to identify beforehand any risks which might be associated with the achievement of the investment objectives. To control these risks, guidelines are defined regarding specific investment parameters listed below.

**a. Diversification of counterparts**

22. The investments should be distributed among multiple institutions, ensuring that no more than 50% of the portfolio is exposed to one institution at a time. Sovereign risks with AAA/AAA/Aaa investment ratings are exempt from this restriction. In selecting counterparties, the Agency considers the latest credit ratings as evaluated by companies specialising in financial market intelligence such as Fitch IBCA, Standard and Poor's (S&P) and Moody's.

**b. Credit limit**

23. To ensure credit quality and consistency of credit evaluation, the Agency relies on approved independent credit rating agencies to determine credit worthiness. The approved agencies are Fitch IBCA, S&P and Moody's. On an exceptional basis, equivalent independent agencies may provide ratings for securities which are not rated by any three agencies. Use of rating services other than the three approved agencies will be permitted only to the extent that alternate rating service appears to be objective and independent in its analysis. Ownership by, or shareholdings in brokerage firms would be among the criteria casting doubt on the objectivity of an alternate rating agency.

24. The minimum short-term credit rating is either F1 or P1 or A1. A minimum individual rating of B/C by Fitch IBCA or equivalent must be maintained.

25. The maximum amount of funds which can be placed with a given single financial institution shall vary according to the credit rating as follows:

| Credit Quality (Fitch IBCA) | Maximum balance |
|---|---|
| "A", "B", "A/B" rated banks | 50% of the total funds |
| "B/C" rated banks | 5% of the total funds |

26. The maximum exposure is determined with reference to the credit rating of the institution, the size and composition of the portfolio under management, the duration of the investment, as well as restrictions established by the respective governing authorities.

27. Credit ratings of all approved financial institutions shall be monitored at least quarterly by the Finance office. The Finance office should also prepare a list of financial

institutions and credit limits for each institution. The Investment Committee shall review credit ratings and credit limits, which should be approved by the Director-General. Any exceptions to the policy must be reviewed by the Investment Committee and approved by the Director-General. Where institutions fall below the credit rating criteria, investments in these institutions will be liquidated at the earliest available opportunity.

**c. Investment horizon**

28. The investment horizon for any portfolio can be viewed as the minimum length of time or periodicity over which the rate of return on that portfolio, or changes in the market value of that portfolio, has meaningful significance for the Agency. Short-term investments are for periods ranging from 1 day to 12 months, the time period being determined by an analysis of the expected cash requirements through cash flow projection. Maturity decisions are made with reference to both the projected cash flow requirements, and the liability profile of the Agency.

**d. Currency of investment**

29. The currency in which investments are placed should give due consideration to the currency in which the financial statements are maintained, which is currently in USD. Currency investments should match, to the extent possible, the currency value and duration of obligations.

**e. Asset allocation**

30. Recommendations on asset allocation will be made by the Investment Committee.

31. Asset allocation decisions must be made on the investment objectives of the Agency, and are fundamental to the long-term investment strategy.

32. Asset classes permitted are as follows:
    - Money markets – cash, highly liquid, short-term, but offer lower returns. These consist of bank deposits (call and fixed), negotiable certificates of deposits and repurchase agreements.

    - Marketable debt securities – fixed income, longer term, typically highly secure though this depends on the ratings chosen, but offer better return than cash. These consist of banker's acceptances, commercial papers, treasury bills, government and corporate bonds.

33. No investments in derivative or leveraged products are allowed. Investments in equity or equity-linked products are not allowed. Interest types allowed are: fixed rate, variable rate and zeros.

34. The asset allocation range for each asset class will be:

| **Short-term funds (up to one year)** | |
|---|---|
| Money Markets | Up to 100% |
| Marketable debt securities | Up to 75% |

### f. Privileges and Immunities of the Agency

35. Whenever new investment business is initiated with counterparty, the Agency will indicate that the investment is placed subject to the Privileges and Immunities of the IRENA, or a similar legal document. The counterparties should agree neither to withhold taxes nor to attach the assets for legal claims.

g. Transaction with intermediaries

36. Transactions may be executed with Financial Institutions that have a minimum credit ratings of A/A and A2/P2. Transactions with dealers or brokers not meeting the credit criteria may be executed only if the Organization may settle its obligation after having received the appropriate currency payment or securities delivery.

37. Custodians and Security Lenders should maintain credit ratings of AA/AA/Aa rated at least by two rating agencies.

## Monitoring

38. The Investment Committee shall evaluate the results of the existing funds quarterly. Performance comparisons will be made against the representative performance universe and market indexes for each investment. The overall results of investments will be reported to the Director-General for review.

39. The Investment Committee shall maintain a watch list for investment funds that are not meeting the prescribed objectives. The Investment Committee will select appropriate measures to determine watch list status. Once a fund is placed on the watch list, it is not

necessarily eliminated from the investment menu, but additional measurement analysis is advised.

**Reporting**

40. Investments shall be registered in an investment ledger, which shall show the relevant details for each investment, including its face value, cost, date of maturity, place of deposits, proceeds of sale and income earned.

41. Investment performance reports will be produced at least quarterly. These reports will give performance analysis on the Agency's managed funds.

42. The Director – General shall include in the annual financial statements submitted to the Assembly a disclosure on investments.

## V. Performance standards and benchmarks

43. Appropriate benchmarks will be determined from time to time. Such benchmarks will take account of the investment criteria in order that the benchmarks are achievable without taking undue risk. These benchmarks will include risk performance and volatility measures, and performance objectives.

44. The overall investment performance will be monitored at each meeting of the Investment Committee. Benchmarks are determined against which to judge the investment performance. Where investment manager is used to manage part of the portfolio, benchmarks will be similarly applied to monitor the investment manager's performance.