International Renewable Energy Agency

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INTERNATIONAL RENEWABLE ENERGY AGENCY
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Draft Investment Policy of the Staff Provident Fund

Note of the Chair of the Provident Fund Management Board

1. In its decision A/1/DC/4 on the Establishment of a Staff Provident Fund of the International Renewable Energy Agency, the Assembly decided that the operations of the Staff Provident Fund shall be managed by the Provident Fund Management Board.

2. The Assembly requested the Provident Fund Management Board to, *inter alia*, develop an Investment Policy with due regard to the principle of the preservation of capital, including the forming criteria for investment, namely safety, profitability, credibility, and convertibility.

3. The Principles for the Staff Provident Fund maintain that this policy and any future changes to this policy shall be submitted to the Assembly of the Agency for approval.

4. The Chair of the Provident Fund Management Board recommends that the Assembly approve the text of the draft Investment Policy of the Staff Provident Fund as set out in the Annex to this note and submit the draft Investment Policy to the Assembly through the Council for its consideration.

ANNEX

Draft

Investment Policy of the Staff Provident Fund

I. Purpose of the investment policy

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

2. The policy identifies the investment goals and objectives of the SPF, sets out decision-making processing for selecting investments, and specifies the procedures and relevant measurement indices 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 Staff Provident Fund Management Board (PFMB).

4. 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:

    1. Preservation of capital;
    2. Liquidity; and
    3. Income (rate of return).

II. Roles, responsibilities, and procedures

5. Parties involved in the management of the investments include:

   a. **Staff Provident Fund Management Board (PFMB).**

- PFMB shall supervise the investment of the assets of the Fund and make all decisions concerning selection and retention of the investment options available.
- PFMB shall have the authority both to select and monitor funds, and to appoint service providers such as investment advisor(s) and investment manager(s) as required.
- Decisions of PFMB on investment policy, the selection of investments, performance analysis, and investment monitoring may be, but need not be, based on the

recommendations of one or more investment advisor(s) engaged to advise PFMB on such matters.

- All decisions relating to the choice and on-going monitoring of investment funds shall be maintained in written records of PFMB. Related PFMB meeting minutes shall document investigation, facts, and the reasoning that went into the making such decisions. Relevant documents or materials used by PFMB in its decision-making process maybe included or annexed in such minutes. On-going investment decisions may be made based on email exchanges between PFMB members. Copy of theses emails would serve as supporting records for these decisions.

b. **Investment advisors.** One or more investment advisor(s) may be appointed to assist PFMB in the overall supervision of the fund's investments. In this role, the investment advisor will offer additional due diligence as well as independent third-party analysis. More specifically, the investment advisor may offer guidance and recommendations to PFMB in the selection and retention of investment options, the selection and retention of investment manager(s), where applicable, and assistance in the periodic monitoring of the investment fund's performance.

c. **Investment manager(s).** One or more investment manager(s) may be appointed to assist PFMB in investing and managing the Fund's assets in accordance with this investment policy statement and applicable rules and regulations. Cost and benefits of advice and management should be carefully considered by the PFMB in the light of achieving maximum return for the SPF members.

III. General investment philosophy

6. The investments of the fund shall be selected in order 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 to the fund.

7. PFMB shall select such investments based upon its stated investment objectives, the investment type, and historical performance. PFMB 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 under the Fund.

8. Asset classes currently permitted are money markets (savings/deposit accounts and short term – low risk securities including bonds and treasury bills), marketable debt instruments (government and corporate bonds), capital-guaranteed structured investments (investments with added capital guarantee), and equity or equity-linked products.

IV. Investment options selection

9. PFMB shall select the Fund's investment options based on consensus view. Selection criteria shall include, but not be limited to, the following:
   - The investment option's volatility, performance, and liquidity 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; and
   - The size, structure, and history of the investment option; management profile and investment philosophy; staff experience and depth; and commitment to research.

10. 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 the investment parameters below.

a. **Diversification of counterparties.** The investment portfolio should be distributed among multiple institutions, within the limits of practical operation and transaction cost. In selecting counterparties, the Fund 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.** To ensure credit quality and consistency of credit evaluation, the Fund 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. Investments with the Central Bank of a country in a currency of that country are exempt from this credit limit.

For the purposes of this policy statement, "short-term" refers to exposures maturing in less than one year. "Long-term" refers to any investments with maturities of one year and up, but in no case exceeding five years.

The minimum short-term credit rating is either F2 or P1 or A1. A minimum individual rating of B by Fitch IBCA or equivalent must be maintained. The minimum long-term credit ratings are:

More than one year and up to three years	AA/AA/Aa
More than three years and up to five years	AAA/AAA/Aaa

PFMB may periodically authorise investments to be placed in lower graded investment as appropriate.

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	75% of the total funds
"B/C" rated banks	10% of the total funds

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.

Credit ratings of all approved financial institutions shall be prepared, reviewed and approved by PFMB at least quarterly. The approved list will be maintained for the purposes of the audit. Any exceptions to the policy must be approved by PFMB. Where institutions fall below the credit rating criteria, investments in these institutions will be liquidated at the earliest available opportunity.

c. **Investment horizon.** 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 Fund. Maturity decisions are made with reference to both the projected cash flow requirements, and the liability profile of the Fund. Investment horizon for the Fund is a maximum of five years.

d. **Currency of investment.** 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.

e. **Asset allocation and portfolio diversification.** Decisions on asset allocation will be made by PFMB. Asset allocation decisions must be made on the investment objectives of the Fund, and are fundamental to the long-term investment strategy.

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, and mutual funds.
- Capital-guaranteed structured investments: range of liquidities, low risk on capital, higher risk on interest element.
- Equity or equity-linked products.

No investments in derivative or leveraged products are allowed. Interest types allowed are fixed rate, variable rate, and zeros.

The asset allocation range for each asset class will be:

Short-term funds (less than one year)	
Money Markets	Up to 100%
Marketable debt securities	Up to 75%
Capital-guaranteed structured investments	Up to 75%
Equity or equity-linked products	Up to 10%

Long-term funds (one year up to five years)	
Money Markets	Up to 20%
Marketable debt securities	Up to 100%
Capital-guaranteed structured investments	Up to 100%
Equity or equity-linked products	Up to 20%

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

g. **Transaction with intermediaries.** 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 Fund may settle its obligation after having received the appropriate currency payment or securities delivery. Custodians and Security Lenders should maintain credit ratings of AA/AA/Aa rated at least by two rating agencies.

V. Monitoring

11. PFMB shall evaluate the results of the existing funds quarterly. Performance comparisons will be made against the representative performance universe and market indices for each investment.

VI. Reporting

12. 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. PFMB can delegate this to the IRENA financial office.

13. Investment performance reports will be produced at least quarterly. These reports will give performance analysis on the managed funds. The Chair of the PFMB shall include in the financial statements submitted to the Assembly a disclosure on investments.

VII. Performance standards and benchmarks

14. 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, volatility measures, and performance objectives.

15. The overall investment performance will be monitored at meetings of PFMB. Benchmarks are determined against which to judge the investment performance. Where an investment manager is used to manage part of the portfolio, benchmarks will be similarly applied to monitor the investment manager's performance.