

# Liquidity Investment Management

Presentation by  
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14 September 2006

ADB

# Liquidity Management & Investments

- Management of Liquidity Portfolios
  - \$21.8 billion across 20 different currencies
- Board-approved Investment Authority of 1999
- Management-approved Investment Guidelines
- Portfolios and Liquidity Investments

# **Investment management is governed by**

- **Investment Authority (approved by Board of Directors)**
  - **Modern portfolio approach to efficient management of liquidity**
  - **Diversified allocation to External Managers (MBS, ABS, Corporates)**
  - **Duration of aggregate portfolio limited to 36 months**

# Investment Authority allows investment in fixed income instruments

- Government bonds of member countries
- Bonds guaranteed by member countries
- Bonds issued by agencies of member countries;
- Bonds issued by peer MDBs
- Corporate bonds rated AAA, AA, and A (USD portfolio)
- AAA-rated MBS and ABS (USD portfolio)
- Money market placements with approved depository banks (minimum credit rating A+)
- Bond holdings are lent out – Sec. Lending

# Liquidity management on an operational level is determined by

- Investment Guidelines approved by the President
  - Detailed approach to managing market and credit risk within well-defined parameters
- Market risk
  - Portfolio duration within +/-15% range of external benchmarks
  - Allowable instruments
- Credit risk
  - Concentration limits
  - Approved lists of issuers and counterparties

# Main objectives of investment strategy

- Maintain safety of principal
- Maintain liquidity

subject to achieving these objectives

- Maximize total return for the authorized level of risk

# Investment management

- Aims to outperform external benchmarks by positioning in individual bonds (relative value), sector selection, yield curve buckets, or duration relative to the benchmark

# Ordinary Capital Resources (OCR)

- Core
- Cash cushion
- Operational cash
- Discretionary liquidity
- External Asset Managers

## Objectives of segregation

- Maximize efficiency of managing cash holdings
- Increase transparency by separately tracking the return of each sub-portfolio

# Purposes of OCR liquidity

- Ensure uninterrupted availability of funds for loan disbursements and debt servicing
- Provide protection against unexpected adverse cashflows
- Contribute to ADB's earning base

# Core portfolio

- **Equity funded – invested in a longer time horizon**
- **Composed of six major currencies (USD, JPY, EUR, AUD, GBP, and CAD)**
- **Managed against individual currency-specific benchmarks (Lehman)**
- **Cash inflows/outflows are minimized to promote stable returns**

# Cash cushion portfolio

- Holds the proceeds of borrowing transactions pending their disbursement under approved loans
- Invested in liquid money market instruments
- Does not have a pre-determined size
- Benchmarked against overnight Libid

# Operational cash portfolio

- Designed to meet net cash requirements expected over a one-month horizon
- Funded with an initial equity allocation of US\$300 million
- Invested in highly liquid money market instruments and fluctuates in size due to cash inflows and outflows
- Benchmarked against overnight Libid

# Discretionary liquidity portfolio

- Smooth out future cash flow requirements
- Funded by floating rate borrowings
- Invested in matching floating rate instruments
- Objective is to maximize spread between borrowing cost and invested assets

# External Asset Managers

- **MBS – rated AAA (up to 10% of USD core)**
- **ABS – rated AAA (up to 10% of USD core)**
- **Corporate bonds – rated single A (up to 10% of USD core)**

# Special Funds

ADF & R	US\$ 6,113 million
JSF	US\$ 216 million
TASF	US\$ 281 million
ACCSF	US\$ 31 million
ADBI	US\$ 12 million
Tsunami	US\$ 499 million
Grant Accts & Trust Funds	US\$ 517 million
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	US\$ 7,669 million

# Staff Retirement Plan (SRP)

- US\$1,114 million in equities and fixed income
- Assets are managed by external managers
- Management is overseen by SRP Investment Committee
- Investment Committee is supported by SRP Investment Unit in TDID

- **Liquidity Management**

- **OCR**

**US\$14.1 billion**

- **Special Funds**

**US\$ 7.7 billion**

**US\$21.8 billion**

- **Investment transactions**

**25,000**

- **Turnover**

**US\$900 billion**

- **Executes forex transactions**

**US\$2.5 billion**

- **Manages SRP assets**

- **Equity**

**US\$ 817 million**

- **Fixed income**

**US\$ 297 million**

**US\$1,114 million**

**ADB**