

Program and Budget Committee

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PROPOSED AMENDMENTS TO THE POLICY ON INVESTMENTS

Document prepared by the Secretariat

1. In September 2015, the Program and Budget Committee recommended a Revised Policy on Investments (WO/PBC/24/10) to the Assemblies of WIPO and this was subsequently adopted by the Assemblies (A/55/4). The policy on investments was approved in accordance with Financial Regulations 4.10 and 4.11 that provide the authority of the Director General to make, in accordance with the Organization's policy on investments as approved by the Member States, short-term investments of money not needed for immediate requirements and long-term investments of monies standing to the credit of the Organization. The policy applies to investments held for WIPO and for Funds in Trust (FITs) and covers three categories of cash:

- (a) Operating cash required by the Organization to meet daily payment requirements and to ensure that an amount equivalent to the target reserve is available in liquid assets;
- (b) Strategic cash which has already been and which may continue in the future to be set aside to finance the after-service health insurance (ASHI) liabilities; and
- (c) Core cash which is the balance of cash remaining once operating cash and strategic cash have been deducted. Core cash is not expected to be used over a short-term period (period of less than one year).

2. Since the adoption of the policy, progress has been made toward the goal of implementing the policy by the end of 2017 as follows:

(a) The Advisory Committee on Investments (ACI) has been formed and held several meetings for the purpose of recommending to the Director General the allocation of investment assets in accordance with its terms of reference.

(b) The Asset and Liability Management Study (ALM), to be used in the asset allocation of strategic cash, has been completed by a professional financial advisor and reviewed by the ACI. The initial allocation of the strategic cash which is driven by the financial and actuarial characteristics of the ASHI liabilities has been determined by the ACI on the basis of the ALM study and approved by the Director General.

(c) A firm of Investment Advisors has been recruited, following a formal request for proposals (RFP), to assist the Controller and the ACI in carrying out their responsibilities for the investment of the three categories of cash in accordance with paragraph 9 of Annexes I and II of the policy on investments. The current international financial situation, in particular the decisions made by central banks to impose low or even negative interest rates on certain types of investments traditionally utilized by non-governmental organizations for investments, is complicated and requires expertise on the financial sector. The external expertise would support the ACI particularly in determining the initial investments.

(d) Following a recommendation of the Investment Advisors, the Controller proposed to the ACI that the balance of the Organization's loan with the Cantonal banks of Geneva and Vaud be paid off in advance of maturity. This decision was based on an evaluation that the rate of return that could be achieved from the investment of funds held in Swiss francs was lower than the rate being charged by the banks for interest on the loan notwithstanding a small prepayment penalty. In addition, the prepayment lowered the risk that the Organization would be subject to the payment of negative interest rates on cash holdings in excess of thresholds set by banks holding Swiss franc balances. The proposal to prepay the loan was approved by the ACI and the Director General and completed in 2017.

(e) An RFP has been issued to recruit a bank to serve as the Organization's Global Custodian with responsibility for holding all investments, processing all purchases and sales of investments, collection of investment earnings, reclaiming of taxes withheld that are reimbursable, providing an online portal to enable real time monitoring of investment holdings and reporting on the performance of external fund managers. The RFP is in the final stages of completion and it is anticipated that the Global Custodian will be appointed by the end of May 2017.

(f) In addition to adopting the asset allocation for the strategic cash, the ACI has adopted and the Director General has approved an initial strategy for the investments to be acquired for both the core and operating cash in accordance with the limitations imposed by the policy on investments on risk tolerance, liquidity constraints, credit worthiness, currency of investment, diversification of counter parties, credit limits, ethical considerations and eligible asset classes.

3. After considering recommendations made by the external Investment Advisors and agreed by the Controller, the ACI determined that engaging external fund managers to acquire and manage portfolios of individual investments would not be in the best interest of the organization. This was because of the fees charged for such management, the transaction costs related to purchase and sale of investments and the current limited investment returns available particularly in Swiss francs but also in other currencies, after the cost of hedging to the Swiss franc and exchange risks are taken into consideration. It was,

therefore, determined by the ACI, with the approval of the Director General, that investments would be made in existing investment funds in which the Organization could acquire shares that are publicly traded.

4. Once the Global Custodian has been appointed and assumes its responsibilities the process of identifying and acquiring individual investments will begin. The policy on investments requires a formal RFP process for the recruitment of the external fund managers that manage existing investment funds. The Finance Division is currently working with the Procurement and Travel Division to develop and publish Requests for Proposals (RFPs) for the acquisition of the initial investments in equity funds, real estate investment funds and bond funds that can be made in accordance with the current policy on investments as adopted in 2015. The goal is to complete the acquisition of these investments which will total approximately 65% of the total core and strategic cash prior to the end of the third quarter of 2017.

5. In accordance with the provisions of the policy on investments WO/PBC/24/10 one of the responsibilities of the ACI is to annually review the policy on investments on the basis of recommendations for amendments and/or updates received from the Controller. At the request of the Controller the external Investment Advisor was asked to identify any elements in the existing policy that limit the Organization's ability to realize its goals of preserving capital, ensuring liquidity and achieving a return, taking into consideration the current market conditions and limited investment returns. Certain proposals to enhance the policy and to modify current limitations have been identified that are necessary to align the policy on investments with the investment strategy adopted by the ACI as recommended by the Controller and approved by the Director General.

6. The adoption of the proposed amendments will provide additional flexibility enabling the Organization to expand its investments particularly in publicly traded bond funds. Should the amendments be adopted the goal would be to complete investment of all of the core and strategic cash by the end of 2017. The Controller and the ACI also reviewed the Financial Regulations to determine whether any amendments were required in order to eliminate any potential conflict with the policy on investments.

7. Once approved by the Director General any such amendments to the policy on investments must be approved by the WIPO General Assembly. Each of the proposed amendments, together with an explanation of the reason for each proposed change, is shown in the Annex.

8. The following decision paragraph is proposed.

9. The Program and Budget Committee (PBC) recommended that the Assemblies of WIPO, each as far as it is concerned, approve the amendments to the Policy on Investments (document WO/PBC/26/4 Rev.).

[Annexes follow]

POLICY ON INVESTMENTS – OPERATING AND CORE CASH

A. SCOPE AND PURPOSE

DESCRIPTION OF INVESTOR

1. The World Intellectual Property Organization (WIPO) was established pursuant to the Convention Establishing the World Intellectual Property Organization which was concluded in 1967 and entered into force in 1970, replacing the Bureau for the Protection of Intellectual Property (BIRPI) which had been established in 1893 (BIRPI in its French acronym, meaning *Bureaux Internationaux Réunis pour la Protection de la Propriété Intellectuelle*) to administer the Paris Convention for the Protection of Industrial Property (1883) and the Berne Convention for the Protection of Literary and Artistic Works (1866). In 1974, WIPO was recognized as a specialized agency of the United Nations.

2. WIPO carries out a wide variety of tasks related to the protection of IP rights including: assisting governments and organizations to develop the policies, structures and skills needed to harness the potential of IP for economic development; working with Member States to develop international IP law; administering treaties; managing global registration systems for trademarks, industrial designs and appellations of origin and a filing system for patents; providing dispute resolution services; and acting as a forum for informed debate and for the exchange of expertise.

AUTHORITY

3. This policy on investments is developed pursuant to Financial Regulation 4.10 that provides authority of the Director General to make short-term investments of money not needed for immediate requirements in accordance with the Organization's investment policy as approved by the Member States, and Financial Regulation 4.11 that provides authority for the Director General to make long-term investments of monies standing to the credit of the Organization in accordance with the Organization's investment policy as approved by the Member States. The policy applies to investments held for WIPO and for Funds in Trust (FITs) and covers two categories of cash: operating and core. Operating cash is the cash required by the Organization to meet daily payment requirements and to ensure that an amount equivalent to the target reserve is available in liquid assets. Core cash is the balance of cash remaining once operating cash and strategic cash (covered by a separate investment policy) have been deducted. Core cash is not expected to be used over a short-term period (period of less than one year).

4. This policy provides the overarching principles for the Organization's investments and thus applies to the investment guidelines issued to external fund managers (defined under paragraph 16).

B. STAKEHOLDERS, ROLES AND RESPONSIBILITIES

DIRECTOR GENERAL

5. The Director General will review and give final approval to reports, proposals and recommendations submitted by the Advisory Committee on Investments (ACI).

6. In accordance with Financial Regulations 4.10 and 4.11, the Program and Budget Committee (PBC) shall be informed regularly by the Director General about short-term and long-term investments.

ADVISORY COMMITTEE ON INVESTMENTS

7. The Committee will be composed of members appointed by the Director General. An Office Instruction establishing the Committee will be issued by the Director General.

8. This Committee provides advice to the Director General in respect of the investment of the Organization's funds pursuant to Chapter 4, Section C of the Financial Regulations and Rules. This advice covers such matters as contents of the investment policy, strategy, asset allocation, appropriate performance benchmarks and investment guidelines. Specific responsibilities are as follows:

(a) Execution and monitoring of the investment policy

The ACI will oversee the implementation and monitor all aspects of the investment policy. The work will be undertaken on the basis of proposals and reporting from and research carried out by the Treasurer, and will culminate in recommendations from the ACI to the Director General.

(b) Review and update of the investment policy

The investment policy will be reviewed annually by the ACI on the basis of recommendations for amendments and/or updates received from the Controller.

Following such review, the ACI's recommendations will be submitted to the Director General and ultimately to the Member States for approval. Ad-hoc reviews of the policy may be undertaken as the result of certain market circumstances or other factors.

(c) Engagement and discharge of external fund managers and the custodian

The ACI, following the approval of the Director General, is responsible for the engagement and discharge of external fund managers and the custodian (defined under paragraph 17).

For the selection of external fund managers and the custodian, a Request for Proposals (RFP) exercise will be conducted in accordance with the Organization's procurement framework. The evaluation of proposals received, together with accompanying recommendations, will be submitted to the ACI for final review.

External fund managers must fulfill the following initial requirements in order to be considered for the selection process:

- (i) The manager must adhere to the governing legislation and regulation in the relevant country concerning financial services, including the authority of the competent regulatory body;
- (ii) The manager should endeavor to comply with the Global Investment Performance Standards (GIPS)¹ and to provide at least historical quarterly performance data, reported net and gross of fees;
- (iii) The manager must provide detailed information on the history of the firm, key personnel, key clients, fee schedule and support personnel;

¹ GIPS standards are a set of standardized, industry-wide ethical principles that provide investment firms with guidance on how to calculate and report their investment results to prospective clients.

- (iv) The manager must clearly articulate the investment strategy that will be followed and document that the strategy has been adhered to over time.

Selected external fund managers are formally engaged on the signing of their investment management contracts. The contracts outline in detail the responsibilities of the fund managers². Such contracts, based upon the recommendation of the ACI, will be signed on behalf of WIPO in accordance with its procurement framework.

(d) Monitoring external fund managers and the custodian

The ACI, reporting to the Director General, will ensure that appointed fund managers fulfill their mandates within the contractual obligations outlined in the relevant investment management contract, including the investment guidelines incorporated into each contract. This work will be done on the basis of quarterly reports received from the Treasurer regarding the performance of external fund managers relative to benchmarks and other key performance indicators and the performance and risk statistics provided by the custodian. The ACI will undertake a quarterly review of investment strategies (or, on an ad-hoc basis, as required) and will hold regular review meetings with external fund managers and other service providers.

With regard to the custodian, the ACI, on the basis of reports received from the Treasurer and reporting to the Director General, will ensure the following:

- (i) Adherence to the master custody agreement³;
- (ii) Adherence to the service-level agreement and key performance indicators that form part of the master custody agreement; and
- (iii) Regular service review meetings.

(e) Asset allocation

The asset allocation for operating and core cash shall be determined by the ACI. The ACI's recommendations will be submitted to the Director General for approval.

9. In order to carry out the responsibilities described under paragraph 8 above, the Committee may retain the services of experts outside the Organization having substantial experience in the financial sector. The ACI will meet at least quarterly.

CONTROLLER

10. In accordance with Rule 104.10 the authority to make and prudently manage investments in accordance with the investment policy approved by Member States under Regulations 4.10 and 4.11, is delegated to the Controller.

11. The Controller ensures, by establishing appropriate guidelines⁴, that funds are held in such currencies and such asset classes as to place primary emphasis on minimizing the risk

² Responsibilities include: investment authority, liability of manager, representations and warranties, performance benchmark, fees, reporting and other administrative requirements. Relevant investment guidelines are incorporated into each agreement.

³ This agreement covers the situation in which WIPO will have multiple external fund managers and a single global custodian. The custodian takes responsibility for reconciling its records with those of each fund manager, this relieving WIPO of this administrative burden.

to principal funds while ensuring the liquidity necessary to meet the Organization's cashflow requirements. In addition, investments as well as the currencies in which they are held, shall be selected by the Controller, on the basis of this investment policy and on the basis of reports, research and proposals received from the Treasurer and any recommendations made thereon by the ACI.

TREASURER, FINANCE DIVISION

12. This person, reporting to the Finance Director, who also acts as the Secretary to the ACI, is responsible for carrying out investment activities and reporting of all investments made. The Treasurer liaises with external fund managers and the custodian and prepares quarterly reports on the current status of investments for submission to the ACI, via the Controller. These reports will cover performance relative to benchmarks and risk statistics. A further responsibility includes monitoring the criteria which would result in placing an external fund manager on "watch" for consideration of possible replacement. The resulting report will be submitted to the ACI, via the Controller. The Treasurer also undertakes a month-end review of trade executions.

13. Cashflow projections for both categories of investments will be updated on a monthly basis by the Treasurer in order to ensure that sufficient funds are available in both categories to meet liquidity requirements. The Treasurer is also responsible for managing relationships with banks and all other financial counterparties, including quarterly monitoring of their credit ratings.

14. The responsibility for investing operating cash lies with the Treasurer. This includes, but is not limited to:

- (a) Construction of a portfolio of investments which meets the liquidity requirements of the Organization;
- (b) Dealing with established investment counterparties and in asset classes which satisfy the terms of this investment policy;
- (c) Evaluation and maintenance of relationships with investment counterparties, including coordinating the legal documentation;
- (d) Credit risk analysis of counterparties;
- (e) Sovereign risk analysis; and
- (f) Monitoring financial markets.

15. Reports will be submitted quarterly on the performance of operating cash by the Treasurer via the Controller to the ACI.

EXTERNAL FUND MANAGERS

16. This term refers to individuals and companies which provide investment management services whereby assets such as shares, bonds and real estate are professionally managed in order to meet specified investment goals for the benefit of the Organization.

[Footnote continued from previous page]

⁴ These guidelines are not to be confused with the guidelines issued by the ACI to external fund managers.

CUSTODIAN

17. This is the financial institution responsible for safeguarding the Organization's financial assets. The custodian holds assets such as shares and bonds and arranges settlement of any purchases and sales of such assets and collection of income. The custodian may provide other services such as risk analysis, monitoring the performance of the external fund managers and compliance reporting.

C. INVESTMENT OBJECTIVES, RISK TOLERANCE AND CONSTRAINTS

OBJECTIVES

18. The objectives of this investment policy are established in Financial Rule 104.10 (b) which provides that the Controller "shall ensure that funds are held in such currencies and invested in such a way as to place primary emphasis on minimizing the risk to principal funds while ensuring the liquidity necessary to meet the Organization's cash flow requirements". The primary objectives of the Organization's investment management, in order of importance, shall be (i) preservation of capital; (ii) liquidity and (iii) within the constraints of (i) and (ii), the rate of return.

19. The Organization aims to achieve a market rate of return whenever appropriate and possible for both operating and core cash, in line with either the benchmarks indicated in section F or with those defined in the respective investment guidelines, as appropriate. Where, exceptionally, negative interest rates prevail in relation to its base currency, the Organization aims to minimize the impact of such rates as much as possible by holding investments with counterparties meeting the required credit rating, which offer positive or zero rates.

RISK TOLERANCE

20. The level of risk taken is to be consistent with the investment objectives of the two categories of cash: operating and core. For operating cash, the risk tolerance is zero. For core cash, it is recognized and acknowledged that some risk must be assumed in order to achieve the investment objectives. Given the objective of preserving capital, risk tolerance may be increased when certain market conditions, such as negative interest rates, prevail. Risk tolerance levels are determined and approved by the Director General based on recommendations from the ACI. The ACI is responsible for understanding the risks and monitoring them continually.

CONSTRAINTS

21. Liquidity: Operating cash balances, equivalent to the target reserves level, will be invested over the short-term (periods not exceeding twelve months to maturity) in low-risk asset classes which are easily liquidated at little or no cost. The aim is to meet the Organization's liquidity requirements. Core cash will be invested ~~over the medium-term (periods exceeding twelve months)~~ with the objective of generating a positive return, net of any management fees and costs of hedging to Swiss francs over rolling 5 year periods. ~~whilst aiming for low volatility of the values of underlying investments.~~ Core cash will be invested ideally in such a way that occasional access to a portion of the cash is possible ~~thus facilitating scheduled large payments, such as loan repayments, in the future.~~

A review by the ACI of the approach to be taken in implementing the investment policy along with information provided by the external Investment Advisor indicated that it would be more realistic to establish a goal of generating a positive return net of management fees and costs of hedging investments held in currencies other than Swiss francs, over rolling periods of five years given the current low yield generated on investments in Swiss francs. This is particularly important, given the Organization's risk profile and the dual importance of limiting holdings in investments involving risk and limiting volatility. Therefore, the third sentence has been modified accordingly.

In addition, since the repayment of the loans from the cantonal banks had been fully accomplished the phrase "thus facilitating scheduled large payments, such as loan repayments, in the future" is redundant and has been removed.

Diversification of counterparties:

22. All of the Organization's investments of operating and core cash may be placed with a single institution which enjoys sovereign risk and AAA/Aaa rating provided that such an institution can be identified and will accept such investment monies. Otherwise, operating cash will be distributed among multiple institutions, with the aim of dividing such monies amongst a minimum of four institutions, if possible, with no more than 30 per cent of operating cash to be held with any one institution. Core cash will be divided between at least two external fund managers.

23. Both operating and core cash investments may only be held with institutions with a ~~short-term rating of A-2/P-2 or a long-term rating of A-/A3 or higher credit rating as set out in Section D⁵. The only exception to this relates to corporate issuances (corporate bonds and commercial paper) which may have a short-term rating of A-3/P-3 or a long-term rating of BBB-/Baa3. Where institutions fall below the credit rating criteria, investments in these institutions will be liquidated at the earliest available opportunity.~~

The second sentence is deleted as the minimum credit ratings for each asset class are shown in the table in Section D.

The last sentence has also been deleted. The price of securities would have declined before the downgrading of the issue below the lowest allowable credit rating of BBB-. Therefore selling the security at that moment does not protect the portfolio but merely results in realizing an accounting loss. Since experience has demonstrated that the majority of downgraded securities recover value over time, a blanket requirement to liquidate securities may not be in the best interest of the organization.

24. Investments placed with subsidiaries or affiliates of an institution shall be aggregated when determining the percentage of money held with the institution concerned. Limits may be temporarily exceeded owing to foreign currency fluctuations, the maturity of large investments, changes in cashflow or downgrading of institutions. Furthermore in periods of negative interest rates, owing to the limited number of counterparties available, the level of operating cash investments with selected counterparties may rise above the prescribed percentage levels. Where levels have been exceeded, this will be reported immediately to the Controller and the Treasurer will endeavor to remedy the matter as soon as possible without incurring penalties. Where the level cannot easily be adjusted (because of associated costs), approval of the situation will be required from the Controller. Where negative interest rates have to be assumed, details of the reasons for this will be submitted by the Treasurer, via the Finance Director, to the Controller for approval.

CURRENCY OF INVESTMENT

25. The currencies in which investments are placed should give consideration to the currency in which the financial statements are maintained, currently the Swiss franc.

26. Where investments are held in currencies other than the Swiss franc, the use of hedging instruments to minimize the risk arising from the fluctuation of the currency of the investment against the Swiss franc and thus avoid total negative investment returns may be authorized by the Controller, after consultation with the ACI. Investment in derivatives for speculative purposes is not permitted.

CREDIT LIMITS

27. Total investments in any given entity shall not exceed 5 per cent of the bank's or company's equity capital as reported in the most recently published financial statements. For fixed income securities, a maximum of 5 per cent of the total size of the issue is allowed.

⁵ [Details of credit ratings are shown in the table entitled "Credit Limits".](#)

ETHICAL CONSIDERATIONS

28. Investments shall take into consideration whether the entity issuing the investment has embraced the United Nations Global Compact's ten principles in the areas of human rights, labor standards, the environment and anti-corruption (www.unglobalcompact.org). All investment activities will comply with the principles outlined in WIPO's Policy on Preventing and Deterring Corruption, Fraud, Collusion, Coercion, Money-Laundering and the Financing of Terrorism.

BORROWINGS

29. WIPO shall not borrow funds from any institutions in order to leverage investments. External fund managers shall also not borrow funds from any institutions in order to leverage investments.

D. ELIGIBLE ASSET CLASSES

30. Eligible asset classes and their minimum credit rating are outlined in the following table. Assets in any of these classes may be held in currencies other than the Swiss franc.

Operating cash may be held in investments maturing in no more than twelve months from the date of acquiring the investment. Investment of operating cash in any one issuer may not exceed 5 per cent of total assets. Investment of core cash in any one issuer may not exceed 5 per cent of total core cash. Investment of core cash in sovereign bonds issued by one country rated AA or above may not exceed 30 per cent of total core cash investments. Investments, within the constraints set hereafter, may be carried out through direct holdings or pooled investment vehicles.

The four sentences starting with "Operating cash may be held..." and ending with "...may not exceed 30 per cent of total core cash investments" have been added to limit exposure to a single issuer and thus improve diversification and reduce risk. There was no specific limit in the policy as adopted.

The last sentence has been added in order to clarify that the use of pooled investment vehicles, which may bolster diversification and risk reduction, and reduce costs, are authorized in lieu of directly holding individual investments. However the pooled investment vehicles will be subject to the constraints set forth in the table below.

	Minimum credit rating		Explanation of the changes
	Short-term (up to 12 months)	Long-term (12 months plus)	
Cash or Equivalent			
Call, savings or deposit accounts Certificates of deposit/time deposits Structured deposits Cross-currency deposits	A-2/P-2	A-/A3 A/A2	<i>This type of investment would be used primarily for operating cash. WIPO's Investment Advisors recommend a higher credit rating as appropriate given WIPO's risk profile for this cash pool.</i>

	Minimum credit rating		Explanation of the changes
	Short-term (up to 12 months)	Long-term (12 months plus)	
Money market investments			
Commercial paper	A-3/P-3	BBB-/Baa3	
Repurchase/reverse repurchase agreements Banker's acceptance	A-2/P-2	A-/A3 <u>A/A2</u>	<i>This type of investment would be used primarily for operating cash. WIPO's Investment Advisors recommend a higher credit rating as appropriate given WIPO's risk profile for this cash pool.</i>
<u>Bonds, notes or other obligations and other fixed income products purchased directly by WIPO</u>			
Government bonds Sub-sovereign bonds – provincial, municipal, territorial Supranational bonds Private placements Corporate bonds	A-2/P-2 <u>A-3/P-3</u>	A-/A3 <u>BBB-/Baa3</u>	<i>Given the limited opportunities available in the current market, WIPO's Investment Advisors consider that diversifying investments to include all investment grade fixed income products would be important.</i>
	A-3/P-3	BBB-/Baa3	
<u>Bonds, notes or other obligations and fixed income products acquired as shares in pooled market traded funds</u>			
Government bonds Sub-sovereign bonds – provincial, municipal, territorial Supranational bonds Corporate bonds	<u>At least 65% of the holdings in Investment Grade (AAA/Aaa -BBB-/Baa3) the balance of up to 35% may be held in high yield bonds BB+/Ba1 to C/Ca</u>	<u>At least 65% of the holdings in Investment Grade (AAA/Aaa -BBB-/Baa3) the balance of up to 35% may be held in high yield bonds BB+/Ba1 to C/Ca</u>	<i>Given the limited opportunities available in the current market, WIPO's Investment Advisors consider that diversifying investments to include some high yield fixed income products would be essential. The approach would allow funds to retain holdings in bonds that are downgraded when the fund manager deems it in the interest of fund shareholders.</i>
Real Estate			
Real Estate Investment Trusts (REITs)	Not applicable	Not applicable	
<u>Real Estate Funds</u>	<u>Not applicable</u>	<u>Not applicable</u>	<i>This option is added in order to enable the portfolio to invest in diversified real estate funds which are not legally structured as REITs.</i>

INVESTMENT GUIDELINES FOR EXTERNAL FUND MANAGERS

31. External fund managers may invest in any of the asset classes shown above, within the risk constraints specified in the investment guidelines.

32. Investment guidelines, as defined by the ACI and approved by the Director General, will be incorporated into each investment management contract and will include at least the following components:

- (a) Investment objectives, defining expected return and risk;
- (b) Portfolio management style, whether active or passive;
- (c) Base currency;
- (d) Performance benchmark;
- (e) Eligible currencies;
- (f) Eligible instruments;
- (g) Minimum and maximum portfolio duration;
- (h) Credit quality;
- (i) Diversification requirements.

33. Other aspects, such as risk budgeting, will be considered in the context of the specific external investment management mandate.

E. PRIVILEGES AND IMMUNITIES OF THE ORGANIZATION

34. Whenever new investment business is initiated with a counterparty, the Organization will indicate that the investment is placed subject to its Privileges and Immunities. The counterparties should agree not to withhold taxes nor to attach the account/assets for legal claims.

F. PERFORMANCE MEASUREMENT

BENCHMARKS

35. Operating cash will be managed internally by reference to the 3-month Swiss Libor rate for Swiss francs, the 3-month Euribor rate for euro and the 3-month T-bill rate for United States dollars or by reference to the benchmark which is the most applicable to the respective investment instrument in the relevant market.

36. Core cash will be managed by external fund managers. Each investment portfolio will have a performance benchmark specified within its investment guidelines. Such benchmarks must meet the following criteria: (i) unambiguous, transparent and simple; (ii) investable and replicable; (iii) measurable and stable; (iv) appropriate to the investment purpose; ~~(v) reflective of current investment options;~~ and ~~(vi)~~(v) specified in advance.

The original phrase (v) was felt to be open to misinterpretation and difficult for the custodian to utilize in evaluation. It has, therefore, been deleted.

PERFORMANCE MEASUREMENT AND REPORTING

37. For core cash, the custodian will report the performance of externally managed portfolios on a monthly basis and ensure that external fund managers have adhered to their investment guidelines. Performance of both internally and externally managed cash will be calculated in Swiss francs i.e. by stripping out the effect of fluctuations of the currencies in which the monies are invested.

38. The performance of operating cash will be compared with the appropriate benchmarks. The performance of external fund managers will be measured relative to the benchmark and any additional indicators, as specified in the investment guidelines.

39. The overall portfolio and benchmark performance in Swiss francs will be reported to the ACI on a quarterly basis. The report will include comparative performance figures for the previous quarters and previous year. Should one or more external fund managers show a significantly poor performance for a period of three or more months, or should a sudden change in an external fund manager's performance trend be observed in a specific month, the external fund manager will be contacted and a written explanation of the performance trend will be required. If the underperformance persists, the ACI will take the necessary measures to ensure that a strategy and corrective action for the underperforming external fund manager are put in place.

40. The annual financial statements will disclose details of all investments in accordance with International Public Sector Accounting Standards (IPSAS) and investments will accordingly be subject to audit. In addition, Financial Regulation 6.6 stipulates that the financial management report (FMR) prepared for each financial period will include a report on investments.

CREDIT LIMITS

To ensure credit quality and consistency of credit evaluation, the Organization relies on approved credit rating agencies to determine creditworthiness. As of 2015, the approved agencies are Moody's, Standard and Poor's and Fitch IBCA.

MOODY'S		STANDARD & POOR'S		FITCH		
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	
Aaa	P-1	AAA	A-1+	AAA	F1+	Investment Grade
Aa1		AA+		AA+		
Aa2		AA		AA		
Aa3		AA-	AA-			
A1		P-2	A+	A-1	A+	
A2	A		A			
A3	A-		A-2	A-	F2	
Baa1	BBB+	BBB+				
Baa2	P-3	BBB		BBB		
Baa3		BBB-	BBB-			
Ba1	Not prime	BB+	B	BB+	B	High Yield
Ba2		BB		BB		
Ba3		BB-		BB-		
B1		B+		B+		
B2		B		B		
B3		B-	B-			
Caa1		C	CCC+	C	CCC	
Caa2	CCC					
Caa3	CCC-					
Ca	CC					
C	C					
		D	/	DDD	/	In default

The descriptions of the credit ratings in the table above have been simplified to refer only to whether the credit rating is investment grade or high yield. It is understood that the higher the grade the lower the perceived credit risk. However, the descriptions related to groupings of ratings as reflected on the original table were felt to be too highly generalized to use for the purposes of evaluation.

On an exceptional basis, equivalent independent agencies may provide ratings for securities which are not rated by any of the three approved agencies. Use of rating services other than the three approved agencies will be permitted only to the extent that the alternate rating service appears to be objective and independent in its analysis.

[Annex II follows]

POLICY ON INVESTMENTS – STRATEGIC CASH

A. SCOPE AND PURPOSE

DESCRIPTION OF INVESTOR

1. The World Intellectual Property Organization (WIPO) was established pursuant to the Convention Establishing the World Intellectual Property Organization which was concluded in 1967 and entered into force in 1970, replacing the Bureau for the Protection of Intellectual Property (BIRPI) which had been established in 1893 (BIRPI in its French acronym, meaning *Bureaux Internationaux Réunis pour la Protection de la Propriété Intellectuelle*) to administer the Paris Convention for the Protection of Industrial Property (1883) and the Berne Convention for the Protection of Literary and Artistic Works (1866). In 1974, WIPO was recognized as a specialized agency of the United Nations.

2. WIPO carries out a wide variety of tasks related to the protection of IP rights including: assisting governments and organizations to develop the policies, structures and skills needed to harness the potential of IP for economic development; working with Member States to develop international IP law; administering treaties; managing global registration systems for trademarks, industrial designs and appellations of origin and a filing system for patents; providing dispute resolution services; and acting as a forum for informed debate and for the exchange of expertise.

AUTHORITY

3. This investment policy is developed pursuant to Financial Regulation 4.10 that provides authority of the Director General to make short-term investments of money not needed for immediate requirements in accordance with the Organization's investment policy as approved by the Member States, and Financial Regulation 4.11 that provides authority for the Director General to make long-term investments of monies standing to the credit of the Organization in accordance with the Organization's investment policy as approved by the Member States. Given the long-term nature of the liabilities relating to the provision of medical benefits to WIPO staff during their retirement (otherwise known as After Service Health Insurance (ASHI)), it was agreed in September 2014 by the Program and Budget Committee (PBC) that a separate investment policy should be prepared for ASHI financing, a recommendation which later obtained the approval of the Assemblies at their Fifty-Fourth session in 2014. This policy addresses this requirement and applies to cash which has already been and which may continue in the future to be set aside to finance the ASHI liabilities. This cash is identified as strategic (long-term) cash.

4. This policy provides the overarching principles for the Organization's investments and thus applies to the investment guidelines issued to external fund managers (defined under paragraph 16).

B. STAKEHOLDERS, ROLES AND RESPONSIBILITIES

DIRECTOR GENERAL

5. The Director General will review and give final approval to reports, proposals and recommendations submitted by the Advisory Committee on Investments (ACI).

6. In accordance with Financial Regulations 4.10 and 4.11, the Program and Budget Committee (PBC) shall be informed regularly by the Director General about short-term and long-term investments.

ADVISORY COMMITTEE ON INVESTMENTS

7. The Committee will be composed of members appointed by the Director General. An Office Instruction establishing the Committee will be issued by the Director General.

8. This Committee provides advice to the Director General in respect of the investment of the Organization's funds pursuant to Chapter 4, Section C of the Financial Regulations and Rules. This advice covers such matters as contents of the investment policy, strategy, asset allocation, appropriate performance benchmarks and investment guidelines. Specific responsibilities are as follows:

(a) Execution and monitoring of the investment policy

The ACI will oversee the implementation and monitor all aspects of the investment policy. The work will be undertaken on the basis of proposals and reporting from and research carried out by the Treasurer, and will culminate in recommendations from the ACI to the Director General.

(b) Review and update of the investment policy

The investment policy will be reviewed annually by the ACI on the basis of recommendations for amendments and/or updates received from the Controller.

Following such review, the ACI's recommendations will be submitted to the Director General and ultimately to the Member States for approval. Ad-hoc reviews of the policy may be undertaken as the result of certain market circumstances or other factors.

(c) Engagement and discharge of external fund managers and the custodian

The ACI, following the approval of the Director General, is responsible for the engagement and discharge of external fund managers and the custodian (defined under paragraph 17).

For the selection of external fund managers and the custodian, a Request for Proposals (RFP) exercise will be conducted in accordance with the Organization's procurement framework. The evaluation of proposals received, together with accompanying recommendations, will be submitted to the ACI for final review.

External fund managers must fulfill the following initial requirements in order to be considered for the selection process:

- (i) The manager must adhere to the governing legislation and regulation in the relevant country concerning financial services, including the authority of the competent regulatory body;
- (ii) The manager should endeavor to comply with the Global Investment Performance Standards (GIPS)⁶ and to provide at least historical quarterly performance data, reported net and gross of fees;
- (iii) The manager must provide detailed information on the history of the firm, key personnel, key clients, fee schedule and support personnel;

⁶ GIPS standards are a set of standardized, industry-wide ethical principles that provide investment firms with guidance on how to calculate and report their investment results to prospective clients.

- (iv) The manager must clearly articulate the investment strategy that will be followed and document that the strategy has been adhered to over time.

Selected external fund managers are formally engaged on the signing of their investment management contracts. The contracts outline in detail the responsibilities of the fund managers⁷. Such contracts, based upon the recommendation of the ACI, will be signed on behalf of WIPO in accordance with its procurement framework.

(d) Monitoring external fund managers and the custodian

The ACI, reporting to the Director General, will ensure that appointed fund managers fulfill their mandates within the contractual obligations outlined in the relevant investment management contract, including the investment guidelines incorporated into each contract. This work will be done on the basis of quarterly reports received from the Treasurer regarding the performance of external fund managers relative to benchmarks and other key performance indicators and the performance and risk statistics provided by the custodian. The ACI will undertake a quarterly review of investment strategies (or, on an ad-hoc basis, as required) and will hold regular review meetings with external fund managers and other service providers.

- (e) With regard to the custodian, the ACI, on the basis of reports received from the Treasurer and reporting to the Director General, will ensure the following:

- (i) Adherence to the master custody agreement;
- (ii) Adherence to the service-level agreement and key performance indicators that form part of the master custody agreement; and
- (iii) Regular service review meetings.

(f) Asset allocation

The asset allocation for strategic cash is driven by the financial and actuarial characteristics of the ASHI liabilities. The initial allocation will be determined by the ACI on the basis of an Asset and Liability Management (ALM) study performed by a professional financial advisor and will be approved by the Director General. Thereafter, the strategic asset allocation shall be reviewed in a three-year cycle by an ALM study. The results of such studies will be reviewed by the ACI which will recommend any adjustments necessary to the investment portfolio composition. Such recommendations will be submitted to the Director General for approval.

9. In order to carry out the responsibilities described under paragraph 8 above, the Committee may retain the services of experts outside the Organization having substantial experience in the financial sector. The ACI will meet at least quarterly.

⁷ Responsibilities include : investment authority, liability of manager, representations and warranties, performance benchmark, fees, reporting and other administrative requirements. Relevant investment guidelines are incorporated into each agreement.

CONTROLLER

10. In accordance with Rule 104.10 the authority to make and prudently manage investments in accordance with the investment policy approved by Member States under Regulations 4.10 and 4.11, is delegated to the Controller.

11. The Controller ensures, by establishing appropriate guidelines⁸, that funds are held in such currencies and such asset classes, in accordance with the asset allocation approved by the Director General, so as to place primary emphasis on minimizing the risk to principal funds while ensuring the liquidity necessary to meet the Organization's cashflow requirements. In addition, investments as well as the currencies in which they are held, shall be selected by the Controller, on the basis of this investment policy and on the basis of reports, research and proposals received from the Treasurer and any recommendations made thereon by the ACI.

TREASURER, FINANCE DIVISION

12. This person, reporting to the Finance Director, who also acts as the Secretary to the ACI, is responsible for carrying out investment activities and reporting of all investments made. The Treasurer liaises with external fund managers and the custodian and prepares quarterly reports on the current status of investments for submission to the ACI, via the Controller. These reports will cover performance relative to benchmarks and risk statistics. A further responsibility includes monitoring the criteria which would result in placing an investment manager on "watch" for consideration of possible replacement. The resulting report will be submitted to the ACI, via the Controller. This person also undertakes a monthend review of trade executions and monitors financial markets.

13. The Treasurer is responsible for managing relationships with banks and all other financial counterparties, including quarterly monitoring of their credit ratings.

EXTERNAL FUND MANAGERS

14. This term refers to individuals and companies which provide investment management services whereby assets such as shares, bonds and real estate are professionally managed in order to meet specified investment goals for the benefit of the Organization.

CUSTODIAN

15. This is the financial institution responsible for safeguarding the Organization's financial assets. The custodian holds assets such as shares and bonds and arranges settlement of any purchases and sales of such assets and collection of income. The custodian may provide other services such as risk analysis, monitoring the performance of the external fund managers and compliance reporting.

⁸ These guidelines are not to be confused with the guidelines issued by the ACI to external fund managers.

C. INVESTMENT OBJECTIVES, RISK TOLERANCE AND CONSTRAINTS

OBJECTIVES

16. Strategic cash is to be invested over the long-term⁹ in order to achieve capital growth and thus an overall positive return over time. The general principles of the Organization's investment management, namely (i) preservation of capital (ii) liquidity and (iii) within the constraints of (i) and (ii), the rates of return are defined as follows:

- (a) Preservation of capital – the portfolio will aim to at least preserve capital over the long term.
- (b) Liquidity – part of the portfolio will be invested in instruments which are publicly traded and thus, under most market conditions, could be readily sold. Strategic cash currently has no short or medium term liquidity requirements.
- (c) Return – the long-term average return should be equal to or greater than the return rate used as the discount rate to value the amount of the liability in order to minimize any funding gap.

17. In accordance with the recommendations of the ALM study, the Organization will aim to achieve a balance between these three principles. It is accepted that it may not be possible to satisfy all three principles all of the time.

18. The aim is to achieve a ~~target~~ cover ratio of ~~80~~ 90 per cent ~~to 100 per cent~~ of the ASHI liability within a period of 20 years, the number of which is a function of the requirement to achieve a positive overall return at an acceptable level of risk.

Based upon the results of the ALM study performed by an external consultant, the ACI has adopted a cover ratio of 90 per cent of the ASHI liability within 20 years which will be utilized to select the investments to be acquired for strategic cash. Therefore, the range of 80-100 percent of the liability has been deleted. The related footnote 10 below has also been deleted as it is now redundant.

RISK TOLERANCE

19. The level of risk taken is to be consistent with the investment objectives for strategic cash as described in section C under "objectives", above. For core cash, it is recognized and acknowledged that some risk must be assumed in order to achieve the investment objectives. Given the objectives for strategic cash, the risk profile will be one which is comfortable with investments which demonstrate volatility. Risk tolerance levels are determined and approved by the Director General based on recommendations from the ACI. The ACI is responsible for understanding the risks and monitoring them continually.

CONSTRAINTS

20. Diversification of counterparties:

- ~~(a) All of the Organization's investments of strategic cash may be placed with a single institution which enjoys sovereign risk and AAA/Aaa¹⁰ rating provided that such an institution can be identified and will accept such investment monies. Otherwise, the aim will be to distribute strategic cash amongst two institutions.~~

⁹ The investment time horizon will be determined by reference to the results of the ALM study.

¹⁰ ~~Details of credit ratings are shown in Annex I.~~

~~For the purposes of determining such institutions, strategic cash will not be held with those institutions which manage core cash.~~

All of WIPO's strategic cash investments, whether acquired directly or through pooled market traded funds, will be held by the Custodian on behalf of WIPO. The Custodian does not manage the funds but merely acts as an agent collecting interest and handling purchases and sales of investments. Only a minimal amount will be held in cash and this will be invested as quickly as possible. Therefore, based on the revised investment plans this paragraph is no longer applicable to holdings in strategic cash.

~~(b) Investments made by external fund managers may only be held with institutions with a short-term rating of A-2/P-2 or a long-term rating of A-/A3 or higher. The only exception to this relates to corporate issuances (corporate bonds and commercial paper) which may have a short-term rating of A-3/P-3 or a long-term rating of BBB-/Baa3. Where institutions fall below the credit rating criteria, investments in these institutions will be liquidated at the earliest available opportunity.~~

In order to simplify the presentation all information related to the asset classes that may be acquired and the credit ratings relevant to each class are shown in the table in Section D below

- (a) Investments made by external fund managers may only be made in accordance with the table of eligible asset classes following in Section D below
- (b) Investments placed with subsidiaries or affiliates of an institution shall be aggregated when determining the percentage of money held with the institution concerned. Limits may be temporarily exceeded owing to foreign currency fluctuations, the maturity of large investments, changes in cashflow or downgrading of institutions. Where levels have been exceeded, the Treasurer in liaison with external fund managers, will endeavor to remedy the matter as soon as possible without incurring penalties. Where levels cannot easily be adjusted (because of associated costs), approval of the situation will be required from the Controller.

CURRENCY OF INVESTMENT

21. The currencies in which investments are placed should give consideration to the currency in which the financial statements are maintained, currently the Swiss franc.
22. Where investments are held in currencies other than the Swiss franc, the use of hedging instruments to minimize the risk arising from the fluctuation of the currency of the investment against the Swiss franc and thus avoid total negative investment returns will be determined by external fund managers in accordance with the investment guidelines issued. Investment in derivatives for speculative purposes is not permitted.

CREDIT LIMITS

23. Total investments in any given entity shall not exceed 5 per cent of the bank's or company's equity capital as reported in the most recently published financial statements. For fixed income securities, a maximum of 5 per cent of the total size of the issue is allowed.

ETHICAL CONSIDERATIONS

24. Investments shall take into consideration whether the entity issuing the investment has embraced the United Nations Global Compact's ten principles in the areas of human rights, labor standards, the environment and anti-corruption (www.unglobalcompact.org). All investment activities will comply with to the principles outlined in WIPO's Policy on Preventing and Deterring Corruption, Fraud, Collusion, Coercion, Money-Laundering and the Financing of Terrorism.

BORROWINGS

25. External fund managers shall not borrow funds from any institutions in order to leverage investments.

D. ELIGIBLE ASSET CLASSES

26. Eligible asset classes and their minimum credit rating requirements are outlined in the following table. Assets in any of these classes may be held in currencies other than the Swiss franc. Investment of Strategic Cash in any one issuer may not exceed 5 per cent of total strategic cash investments except for sovereign bonds rated AA or above. Investment in sovereign bonds issued by one country rated AA or above may not exceed 30 per cent of total strategic cash investments. Investments, within the constraints set hereafter, may be carried out through direct holdings or pooled investment vehicles

The text above has been added to limit exposure to a single issuer and thus improve diversification and reduce risk. There was no specific limit in the policy as adopted.

The last sentence has been added in order to clarify that the use of pooled investment vehicles, which may bolster diversification and risk reduction, and reduce costs, are authorized in lieu of directly holding individual investments. However the pooled investment vehicles will be subject to the constraints set forth in the table below.

	Minimum credit rating		Explanation of the changes
	Short-term (up to 12 months)	Long-term (12 months plus)	
Cash or Equivalent			
Call, savings or deposit accounts Certificates of deposit/time deposits Structured deposits Cross-currency deposits	A-2/P-2	A-/A3 A/A2	<i>This type of investment would be used primarily for operating cash. WIPO's Investment Advisors recommend a higher credit rating as appropriate given WIPO's risk profile for this cash pool.</i>
Money market investments			
Commercial paper	A-3/P-3	BBB/Baa3	

	Minimum credit rating		Explanation of the changes
	Short-term (up to 12 months)	Long-term (12 months plus)	
Repurchase/reverse repurchase agreements	A-2/P-2	A-/A3 <u>A/A2</u>	This type of investment would be used primarily for operating cash. WIPO's Investment Advisors recommend a higher credit rating as appropriate given WIPO's risk profile for this cash pool.
Banker's acceptance			
Bonds, notes or other obligations and other fixed income products purchased directly by WIPO			
Government bonds	A-2/P-2 <u>A-3/P-3</u>	A-/A3 <u>BBB-/Baa3</u>	Given the limited opportunities available in the current market, WIPO's Investment Advisors consider that diversifying investments to include all investment grade fixed income products would be important.
Sub-sovereign bonds – provincial, municipal, territorial			
Supranational bonds			
Private placements			
Corporate bonds	A-3/P-3	BBB-/Baa3	
Bonds, notes or other obligations and fixed income products acquired as shares in pooled market traded funds			
Government bonds	<u>At least 65% of the holdings in Investment Grade (AAA/Aaa -BBB-/Baa3) the balance of up to 35% may be held in high yield bonds BB+/Ba1 to C/Ca</u>	<u>At least 65% of the holdings in Investment Grade (AAA/Aaa -BBB-/Baa3) the balance of up to 35% may be held in high yield bonds BB+/Ba1 to C/Ca</u>	Given the limited opportunities available in the current market, WIPO's Investment Advisors consider that diversifying investments to include some high yield fixed income products would be essential. This approach allows funds to retain holdings in bonds that are downgraded when the fund manager deems it in the interest of fund shareholders.
Sub-sovereign bonds – provincial, municipal, territorial			
Supranational bonds			
Corporate bonds			
Real Estate			
Real Estate Investment Trusts (REITs)	Not applicable	Not applicable	
<u>Real Estate Funds</u>	<u>Not applicable</u>	<u>Not applicable</u>	This option is added in order to enable the portfolio to invest in diversified real estate funds which are not legally structured as REITS.
Direct real estate holdings			The option of direct purchase of real estate is not considered viable given the size of the strategic cash holdings.
Equities			
Equity funds	Not applicable	Not applicable	
Direct equity holdings	Not applicable	Not applicable	
Hedge Funds			The option of hedge funds is not considered appropriate to the risk profile established for the strategic cash funds.

INVESTMENT GUIDELINES FOR EXTERNAL FUND MANAGERS

27. External fund managers may invest in any of the asset classes shown above, within the limits specified by the ALM study. [The investments may be made directly by the fund managers or through pooled market traded funds.](#)

Based on the recommendation of the Investment Advisors, the ACI adopted an approach to utilize primarily publicly traded market based funds for investments in bonds (fixed income), equities and real estate in order to limit the high cost of acquiring direct investments through fund managers and taking into consideration the limited investments available in the current market particularly in a Swiss franc based portfolio. This will be clarified in the guidelines for fund managers.

28. Investment guidelines, as defined by the ACI and approved by the Director General, will be incorporated into each investment management contract and will include at least the following components:

- (a) Investment objectives, defining expected return and risk;
- (b) Portfolio management style, whether active or passive;
- (c) Base currency;
- (d) Performance benchmark;
- (e) Eligible currencies;
- (f) Eligible instruments;
- (g) Minimum and maximum portfolio duration;
- (h) Credit quality;
- (i) Diversification requirements.

29. Other aspects, such as risk budgeting, will be considered in the context of the specific external investment management mandate.

E. PRIVILEGES AND IMMUNITIES OF THE ORGANIZATION

30. Whenever new investment business is initiated with a counterparty, the Organization will indicate that the investment is placed subject to its Privileges and Immunities. The counterparties should agree not to withhold taxes nor to attach the account/assets for legal claims.

F. PERFORMANCE MEASUREMENT

BENCHMARKS

31. Strategic cash will be managed by external fund managers. Each investment portfolio will have a performance benchmark specified within its investment guidelines. Such benchmarks must meet the following criteria: (i) unambiguous, transparent and simple; (ii) investable and replicable; (iii) measurable and stable; (iv) appropriate to the investment purpose; ~~(v) reflective of current investment options;~~ and ~~(vi)~~ (v) specified in advance.

The original phrase (v) was felt to be open to misinterpretation and difficult for the custodian to utilize in evaluation. It has, therefore, been deleted.

PERFORMANCE MEASUREMENT AND REPORTING

32. The custodian will report the performance of externally managed portfolios on a monthly basis and ensure that external fund managers have adhered to their investment guidelines. Performance will be calculated in Swiss francs i.e. by stripping out the effect of fluctuations of the currencies in which the monies are invested.

33. The performance of external fund managers will be measured relative to the benchmark and any additional indicators, as specified in the investment guidelines.

34. The overall portfolio and benchmark performance in Swiss francs will be reported to the ACI on a quarterly basis. The report will include comparative performance figures for the previous quarters and previous year. Should one or more external fund managers show a significantly poor performance for a period of three or more months, or should a sudden change in an external fund manager's performance trend be observed in a specific month, the external fund manager will be contacted and a written explanation of the performance trend will be required. If the underperformance persists, the ACI will take the necessary measures to ensure that a strategy and corrective action for the underperforming external fund manager are put in place.

35. The annual financial statements will disclose details of all investments in accordance with International Public Sector Accounting Standards (IPSAS) and investments will accordingly be subject to audit. In addition, Financial Regulation 6.6 stipulates that the financial management report (FMR) prepared for each financial period will include a report on investments.

CREDIT LIMITS

To ensure credit quality and consistency of credit evaluation, the Organization relies on approved credit rating agencies to determine creditworthiness. As of 2015, the approved agencies are Moody's, Standard and Poor's and Fitch IBCA.

MOODY'S		STANDARD & POOR'S		FITCH		
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	
Aaa	P-1	AAA	A-1+	AAA	F1+	Investment Grade
Aa1		AA+		AA+		
Aa2		AA		AA		
Aa3		AA-	AA-			
A1		A+	A-1	A+	F1	
A2	P-2	A	A-2	A-	F2	
A3		A-		A-		
Baa1	P-3	BBB+	A-3	BBB+	F3	
Baa2		BBB		BBB		
Baa3		BBB-		BBB-		
Ba1	Not prime	BB+	B	BB+	B	High Yield
Ba2		BB		BB		
Ba3		BB-		BB-		
B1		B+		B+		
B2		B		B		
B3		B-	B-			
Caa1		C	CCC+	C	CCC	
Caa2	CCC					
Caa3	CCC-					
Ca	CC					
C	C	/	DDD	/	In default	
	D					

The descriptions of the credit ratings in the table above have been simplified to refer only to whether the credit rating is investment grade or high yield. It is understood that the higher the grade the lower the perceived credit risk. However, the descriptions related to groupings of ratings as reflected on the original table were felt to be too highly generalized to use for the purposes of evaluation.

On an exceptional basis, equivalent independent agencies may provide ratings for securities which are not rated by any of the three approved agencies. Use of rating services other than the three approved agencies will be permitted only to the extent that the alternate rating service appears to be objective and independent in its analysis.

[End of Annex II and of document]