

## Program and Budget Committee

**Twenty-Third Session**  
**Geneva, July 13 to 17, 2015**

### PROPOSAL FOR ADDITIONAL REVISIONS TO POLICY ON INVESTMENTS

*Document prepared by the Secretariat*

#### BACKGROUND

1. Following the receipt of a letter from the Swiss Federal Finance Administration (AFF) in April 2014 in which the Director General of the World Intellectual Property Organization (WIPO) was informed that WIPO would no longer be able to hold deposit accounts with the AFF, document WO/PBC/22/19 was submitted to the Program and Budget Committee (PBC) in September 2014 proposing that various amendments be made to the Organization's policy on investments. Having discussed the document, the PBC:

- “(i) recognized the need to amend the policy on investments; and
- “(ii) requested the Secretariat to:
  - (a) submit a detailed proposal on a revised version of the policy, at its next session, following its review and clearance by the Investment Advisory Committee;
  - (b) undertake an Assets and Liability Management (ALM) study and submit a separate investment policy for ASHI financing, following its review and clearance by the Investment Advisory Committee; and
  - (c) subject to there being sufficient levels of liquidity available, finance the Conference Hall from monies available for investment rather than by drawing down the loan which has been put in place for this purpose.”

2. Since the PBC meeting in September 2014, the banking landscape has changed significantly in Switzerland, principally because of the introduction of negative interest rates by the Swiss National Bank (BNS) following its abandonment of the EUR/CHF currency peg in January 2015. (Annex I shows how the negative rates in Switzerland compare with interest

rates elsewhere in the world). This situation, which is further discussed in document WO/PBC/23/6, gives rise to a number of issues. Over the last few months the Secretariat (including the Investment Advisory Committee Members) has met with various financial institutions, colleagues working in treasury functions for other organizations and an independent external treasury consultancy firm, Zanders, in order to explore ways of addressing these issues and to determine the content of the two investment policies required. Two principal common themes have emerged from these meetings: firstly, the need to clearly establish the nature of the cash available for investment and secondly, the need to review the Organization's investment risk appetite. These two themes are examined below.

## CASH AVAILABLE FOR INVESTMENT

3. Table 1 shows the Organization's cash and cash equivalent balances at the end of March 2015. A review of WIPO's cashflow has revealed that the Organization, in common with many entities, both public and private, can divide its cash into three categories: operating cash, core cash and strategic cash. Each category has a different investment objective, a different investment horizon and a different risk profile and all three of these elements should be captured within an investment policy. Table 2 shows the proposed division of WIPO's cash between the three categories.

**Table 1**

	March 31, 2015	December 31, 2014
<i>(in thousands of Swiss francs)</i>		
Cash on hand	35	12
Deposits with banks - Swiss francs	32,227	42,492
Deposits with banks - other currencies	16,736	25,459
Funds invested with AFF - Swiss francs	178,930	156,674
Other short-term investments - Swiss francs	96	110
<b>Total unrestricted cash</b>	<b>228,024</b>	<b>224,747</b>
Current accounts held for third parties - Swiss francs	60,265	55,982
Current accounts held for third parties - other currencies	7,540	7,588
Fees collected on behalf of contracting parties - Swiss francs	53,362	83,559
Funds held for after service employee benefits	88,906	85,248
Deposits with banks restricted Special Accounts - Swiss francs	14,852	16,730
Deposits with banks restricted Special Accounts - other currencies	564	654
<b>Total restricted cash</b>	<b>225,489</b>	<b>249,761</b>
<b>Total cash and cash equivalents</b>	<b>453,513</b>	<b>474,508</b>

**Table 2**

	March 31, 2015
<i>(in thousands of Swiss francs)</i>	
Operating cash (unrestricted)	125,000
Core cash (a mixture of unrestricted and restricted)	239,607
Strategic cash (restricted)	88,906
	<b>453,513</b>

## OPERATING CASH

4. This cash represents the amount required to meet ongoing operational payments such as payroll, settlement of suppliers' invoices and Madrid and Hague distributions. The investment objective therefore is to ensure liquidity, the investment horizon is immediate as cash is required on a daily basis and the risk profile adopted should aim to ensure that any investments of operating cash preserve capital and can be readily turned into cash. At WIPO the amount of operating cash required varies from month to month but over the last two years, during which WIPO's cashflows have been closely monitored, it has not exceeded 50 million Swiss francs.

5. In addition to ensuring that the Organization has enough cash available to meet its operating requirements, the liquidity of the target reserve should also be considered (document WO/PBC/23/8 further discusses the target reserve). This reserve, in accordance with the current target, has been established at 125 million Swiss francs for 2015 and is designed to ensure that sufficient reserves are available to allow the continuance of operations in the event of a downturn in revenue. As such, it can be argued that an amount of cash equivalent to the target should be held in liquid form. The 50 million Swiss francs required for ongoing payments would form part of the cash required to cover this target amount, the result being that the Organization would maintain overall liquid cash balances at the level of 125 million Swiss francs during 2015. Operating cash should only be invested in asset classes which are easily liquidated at little or no cost. Such types of investment are included, amongst others, in the list shown in paragraph 10. Easily liquidated investments such as deposits currently give a negative return but the Organization will continue to seek investment opportunities which give a positive return on short-term cash, including opportunities to obtain an overall positive return on short-term investments held in currencies other than Swiss francs.

6. WIPO has, until now, been able to avoid the impact of negative interest rates upon its cash. The Organization's principal banking partners have made available to the Organization a mixture of short-notice (up to 35 days) zero interest rate deposits and cash balance "exemption" thresholds below which negative interest rates are not currently being charged. As at the beginning of May 2015, this combination of facilities totaled 125 million Swiss francs. The remainder of WIPO's cash is still held with the AFF in investments which earn zero interest. Exemption thresholds and zero interest rate deposits have also been made available to other UN agencies which hold Swiss francs and represent a very useful way of avoiding negative rates, particularly with regard to cash which has to be readily available. However, these facilities could be reduced or withdrawn at any time, depending on any further action by the BNS. If a decision is taken to maintain the target reserve in readily available cash, any increase to the target or changes to the exemption amounts could mean the imposition of negative interest rates on balances in excess of exemption amounts.

7. Furthermore, once the cash held with the AFF is withdrawn in December 2015, if all of this cash is held with WIPO's banking partners, the limits established for exemption thresholds and zero interest rate deposits will clearly be exceeded and negative rates will be applied to the excess balance. The Secretariat estimates that this situation will persist for several months in 2016 since some time will be required, subject to Member States approval, to select partners and institutions with which WIPO's cash can be held or invested. It is for this reason that the 2016/17 Program and Budget has foreseen a budgetary provision for negative interest.

### Implications for the investment policy

8. The need to maintain balances of highly liquid cash highlights three issues with regard to the current investment policy:

- (i) If invested, operating cash would only be invested over a short-term period. The current policy makes no mention of short-term investments, nor does it stipulate minimum acceptable credit ratings for such investments. The proposal is to include in the new policy a definition of short-term as periods up to one year and to specify acceptable short-

term credit ratings. These would be the short-term equivalents to the acceptable long-term credit ratings shown in (ii) below, namely A-2/P-2<sup>1</sup> for banks and governments, A-3/P-3 for corporate bonds.

(ii) Holding deposits, even at a zero interest rate, constitutes an investment activity. WIPO's principal banking partners do not satisfy the minimum credit rating stipulated by the current investment policy and consequently, if the Organization is to make full use of the facilities currently available and thereby avoid negative rates, the minimum credit rating will have to be lowered. The proposal is to lower acceptable ratings as follows: banks and government bonds will be required to have a long-term credit rating of A-/A3 or higher; corporate bonds a rating of BBB-/Baa3 or higher.

(iii) The current policy calls for "no more than ten per cent of the investments" to be placed with one single institution with the exception of institutions with sovereign risk and AAA/Aaa rating. In the current market it is not only very difficult to identify AAA/Aaa rated banks but it is also virtually impossible to establish new banking relationships for Swiss francs as new monies received lead to additional negative interest charges for the banks concerned from the BNS. This is as true for Swiss banks as it is for banks based overseas. The Organization is fortunate in that it already has relationships with five Swiss financial institutions. Not all of these are investment-related and WIPO will explore the possibility of building on the relationship with its non-investment related banking partners to establish whether additional amounts of its cash can be protected from negative rates. Although efforts will be made, it is very unlikely that the Organization will succeed in establishing totally new banking relationships for Swiss francs and consequently the investment policy will have to change to reflect the realities of the current banking environment. Suggested new wording for the policy is as follows:

*The Organization's investments of operating and core cash shall be distributed among multiple institutions, with the aim of dividing investment monies amongst a minimum of four institutions, if possible. 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.*

## CORE CASH

9. This is the balance of WIPO's remaining cash after the deduction of operating and strategic cash (strategic cash is explained in paragraph 12). It forms the largest part of the cash balances and a significant proportion is "restricted" cash which does not actually belong to the Organization (refer to Table 1). Over the last few years core cash has either maintained its level or increased and this indicates that, although much of this cash is regularly paid out on behalf of the third parties for whom it is held, cash arrives on a similarly regular basis to replenish the balances. The investment objective is therefore one of achieving a balance between liquidity and return, the investment horizon is medium term (i.e. twelve months plus) and the risk profile should be one of preserving capital whilst aiming for low volatility of the values of the underlying investments. Research carried out by the Secretariat, with the full engagement of the Investment Advisory Committee, suggests that it may be feasible to invest this money over a medium term horizon, say up to four years, and thus produce a positive return. The cash would ideally be invested in such a way that occasional access to a portion of the cash would be possible, thus allowing, for example, for scheduled large payments in the future such as loan repayments as they fall due. In addition, rather than invest the entire balance of core cash, sufficient monies could be retained in order to repay two tranches of the New Building loan which reach their maturity in the near future (24 million Swiss francs in November 2015 and 16 million Swiss francs in January 2016).

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<sup>1</sup> Details of credit ratings shown in Annex 2

### Implications for the investment policy

10. In the current environment it is clear that bank deposits and investments in medium-term Swiss government bonds will not achieve a positive return for core cash. This cash will therefore have to be invested in different asset classes some of which are not currently permitted by the investment policy. The asset classes proposed for core cash are those shown below. Some of these bring a higher level of risk than the bank deposits, government and corporate bonds which have, until now, been the only permitted investment classes. A further discussion on risk is contained within paragraphs 17 to 20.

#### **Asset Classes**

- I. Cash or equivalent:
  - (a) Call, savings or deposit accounts
  - (b) Certificates of deposit/time deposits
  - (c) Structured deposits
  - (d) Cross-currency deposits
- II. Money market investments:
  - (a) Commercial paper
  - (b) Repurchase/reverse repurchase agreements
  - (c) Banker's acceptance
- III. Bonds, notes or other obligations (short, medium or long-term) and other fixed income products:
  - (a) Government bonds
  - (b) Sub-sovereign bonds – provincial, municipal or territorial bonds for example
  - (c) Supranational bonds
  - (d) Corporate bonds
  - (e) Private placements
- IV. Real Estate Investment Trusts (REITs)

*Note:* Any of these asset classes could be held in currencies other than Swiss francs and hedged into Swiss francs. Before making investments in currencies other than the Swiss franc, it would be important to evaluate whether such investments would achieve an overall positive return for the Organization.

11. Investing in the range of assets with the required maturities to fulfil the requirements of core cash will require expertise which WIPO does not have in-house. The proposal therefore is to outsource such work by engaging external fund managers to manage the core cash portfolio. Further details of external fund managers are given in paragraph 21. Such a strategy has recently been adopted by the International Labour Organization (ILO) which asked for proposals from fund managers regarding the creation of an investment portfolio. The ILO specified a target return of 1 per cent (net of management fees) and various other criteria including the level of acceptable volatility (2 per cent), the maximum drawdown (loss) which will be accepted (3 per cent) and the asset classes which cannot be held (namely equities and hedge funds). Within the confines of the asset classes identified in the original proposal, the manager selected is permitted to decide how to divide the cash across these asset classes. Investments may be held in other currencies but must be hedged 100 per cent into Swiss francs. This portfolio will

be for 50 million Swiss francs and the ILO is also considering the creation of a similar portfolio in US dollars. With these portfolios, the exemption thresholds and zero rate deposits offered by its banking partners, the ILO hopes to minimize the impact of negative interest rates on its cash. In a similar way WIPO could award portfolio mandates to fund managers and stipulate the investment guidelines to be followed. It should be noted that, in WIPO's context, the extent of the opportunity to make initial investments in currencies other than Swiss francs will be impacted by the decision recently taken by the Member States of the PCT working group, to be approved by the Assemblies, with regard to hedging PCT fees income.

## STRATEGIC (LONG-TERM) CASH

12. This cash is at the opposite end of the spectrum from operating cash. The investment objective is to obtain a positive return, the investment horizon is long-term and thus can extend over several years and the risk profile is one which is comfortable with investments which demonstrate volatility. WIPO's strategic cash is that which has been set aside to finance the ASHI liabilities and which currently stands at 88.9 million Swiss francs (85.2 million Swiss francs at December 31, 2014).

13. As was explained in document WO/PBC/22/19, a treasury study carried out by treasury consultants, FTI Treasury, identified that the ASHI fund has a "pension fund type profile". The monies originally set aside for this fund represented 50 per cent of the total liability for long-term employee benefits as at December 31, 2013 and according to the consultants, this cash would have to earn 2.3 per cent per annum in order to maintain its relative proportion of the liability. The fund should therefore be invested in asset classes which give this level of return (at least) and this would inevitably require accepting higher levels of risk.

14. As was also reported in document WO/PBC/22/19, several agencies have begun to fund their ASHI liabilities. These include the World Health Organization (WHO) (which has invested the funds in equities and fixed income securities), the Food and Agriculture Organization (FAO) and the World Food Program (WFP). These last two agencies have invested 50 per cent of their ASHI funds in equities and 50 per cent in bonds, of which 10 per cent are held in emerging markets. In 2013 a Request for Proposals (RFP) exercise was jointly launched by the United Nations Development Programme (UNDP), the United Nations Children's Fund (UNICEF), the United Nations Office for Project Services (UNOPS), the United Nations Population Fund (UNFPA), UNWOMEN and the United Nations Capital Development Fund (UNCDF) with the objective of securing external fund managers to manage ASHI financing. This exercise now complete, the appointed fund managers are investing in equities (60 per cent of funds) and fixed income (30 per cent) with the balance being placed in alternatives such as private equity and hedge funds. Furthermore, certain agencies have succeeded in covering a significant percentage of their ASHI liabilities with their investments. As at the end of 2013, WFP had investments covering 76.8 per cent of its ASHI liabilities, the investments of the International Fund for Agricultural Development (IFAD) covered 98.6 per cent whilst those of UNDP covered 57.9 per cent. The decisions taken by all of these agencies with regard to their ASHI investments demonstrate their acceptance of an increased level of risk in order to secure a higher return on ASHI funds.

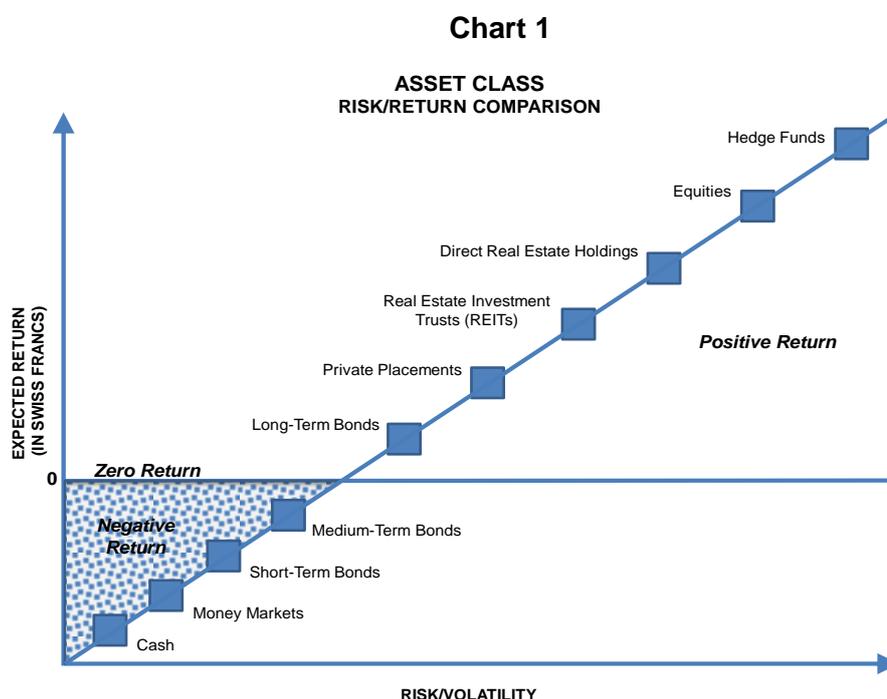
### Implications for the investment policy

16. Given the long-term nature of the ASHI fund, it was agreed in September 2014 by the Program and Budget Committee that a separate investment policy should be prepared for the fund. Work has begun with regard to commissioning an Asset and Liability Management analysis (ALM) of the ASHI liability in order to correctly match the maturities contained within the overall liability with the assets into which the cash would be invested. Such ALM studies have been carried out by other UN agencies and have formed the basis for determining the investment asset classes to be used. In addition to the asset classes already indicated for

operating and core cash (paragraph 10), it is proposed to allow investments in direct real estate holdings, equities (including equity funds both actively and passively managed)<sup>2</sup> and hedge funds. Any of these investments could be held in currencies other than Swiss francs and hedged into Swiss francs but this would only be done if an overall positive return could be anticipated.

## RISK AND RETURN

17. The chart shown in Chart 1 is based on similar charts provided by Zanders and WIPO's principal banking partners and shows the relationship between risk and return. As can be clearly seen, bank deposits and short to medium-term Swiss government bonds are currently providing negative returns. Many market commentators believe that negative returns will continue to exist for up to five years and currently Swiss government bonds only provide a positive return if held for more than 12 years (long-term bonds). Faced with this situation, many investors, including those within the public sector, have moved along the risk axis, investing in asset classes which bring additional risk, in order to achieve a positive return on investments.



*This table shows the relative positions of asset classes in terms of their risk/return relationship. The table is not to scale.*

18. Although this strategy obviously brings an increased level of risk to a portfolio of investments, the alternative of investing in bank deposits and Swiss government bonds will guarantee the erosion of such monies for as long as negative rates prevail. Such interest rates are currently  $-0.75\%$  and could deteriorate further.

19. In deciding to move along the risk axis, typical considerations for the investor are as follows:

- (a) The impact of the length of the time horizon on the ability to take risk – generally the longer the time horizon over which investments can be made and held, the greater the risk level that can be accepted;

<sup>2</sup> Active management refers to a portfolio management strategy where the manager makes specific investments with the goal of outperforming an investment benchmark index. With passive management, investors expect a return that closely replicates the investment weighting and returns of a benchmark index and will often invest in an index fund.

(b) The impact of the length of the time horizon on the asset allocation – if cash is required in the immediate future, it should be held in asset classes which can be realized into cash quickly and at little or no cost. Similarly, if cash is not required for several years, it can be invested in assets which either take some time to be converted into cash, such as direct investments in real estate, or which should only be liquidated when market conditions are appropriate, such as holdings in equities.

(c) Willingness and ability to bear portfolio value fluctuations (volatility) - the value of investments can fall as well as rise over time. This is true not only of those asset classes which are considered to be “riskier” such as equities but also of less “risky” investments such as government bonds. In the current market, Swiss franc bank deposits would also show falls in value. “Riskier” investments tend to be accompanied by higher levels of volatility. Fluctuations in value would have to be recorded in the financial accounts of the Organization and this would mean that unrealized investment losses and gains would be included in either the results for the year or booked against reserves depending on the type of investment held. Realized losses and gains would obviously be included in the results for the year.

20. It is important to note that the trade-off between risk and return within a portfolio of investments is not only dependent on each asset’s risk and return profile but also on the correlation of returns between assets. If the correlation between the various assets held can be minimized, the returns from the different assets will not be affected in the same way or to the same extent by a market event. In a well-diversified portfolio, as the return of one asset class falls, the return of another asset class rises to partly or wholly compensate. It is therefore important to invest in a range of asset classes, ensuring sufficient diversification and building what is known as an optimal portfolio. Annex 3 shows how a portfolio can be diversified and the impact of this upon returns over a period of several years (historical returns from January 2005 to December 2014 and expected returns for the period 2015-2020). The degree of risk accompanying these returns is also shown. The column headed “Portfolio” is indicative of what WIPO’s investment position will be once the Organization’s deposits with the AFF come to an end and are credited to accounts held with commercial banking partners. The column headed “Strategy C” reflects a typical Swiss-based pension fund which has accepted a moderate level of risk whilst building a well-diversified portfolio. The work involved in constructing an optimal portfolio requires comprehensive investment expertise and experience, together with robust performance monitoring and comprehensive analysis processes which ensure that regular adjustments are made in order to maintain the optimal diversification within the portfolio.

21. The proposal is to build externally managed portfolios for both WIPO’s core cash and strategic cash. The managers would be selected by means of a RFP and the two portfolios would each be divided between at least two fund managers with both active or passive fund management as possible options. The RFP documentation would stipulate that returns should be net of management fees. Reporting requirements would be stipulated within the RFP documentation and a global custodian (to be selected by RFP also) would be put in place. The custodian would typically hold the investments on WIPO’s behalf and play a pro-active role in monitoring the investment actions and performance of the fund managers.

22. Operating cash would be managed in-house. Reports on the performance achieved for operating cash and by external fund managers on core and strategic cash would be reviewed on a regular basis by the Investment Advisory Committee. The two investment policies (one covering operating and core cash and a second one covering strategic cash) would follow the format indicated in Annex 4.

23. The management of operating cash in-house and the need to liaise with external fund managers will necessitate resources within the Secretariat. WIPO has contacted several other agencies on the subject of staffing a treasury function and the preliminary indications are that at least one full-time professional member of staff will be required.

24. The following decision paragraph is proposed.

25. *The Program and Budget Committee, recognizing the need for two investment policies (one covering operating and core cash and a second one covering strategic cash), recommended that two such policies should be prepared for approval at its next session and that the two policies should include the following:*

- (i) the definition of short-term investments as those maturing within one year;*
- (ii) minimum credit ratings for short-term investments to be A-2/P-2 for banks and government bonds, A3-P3 for corporate bonds;*
- (iii) revised minimum credit ratings for medium and long-term investments to be A-/A3 for banks and government bonds, BBB-/Baa3 for corporate bonds;*
- (iv) a reduction in the minimum number of financial institutions amongst which operating cash can be held, to four institutions;*
- (v) the use of external fund managers to manage core and strategic cash;*
- (vi) the payment of both of the scheduled loan repayments related to the New Building which are due in November 2015 and January 2016;*
- (vii) a revised list of acceptable asset classes as follows:*

*A. Within the investment policy applicable to operating and core cash:*

*I. Cash or equivalent:*

- (a) Call, savings or deposit accounts*
- (b) Certificates of deposit/time deposits*
- (c) Structured deposits*
- (d) Cross-currency deposits*

*II. Money market investments:*

- (a) Commercial paper*
- (b) Repurchase/reverse repurchase agreements*
- (c) Banker's acceptance*

*III. Bonds, notes or other obligations (short, medium or long-term) and other fixed income products:*

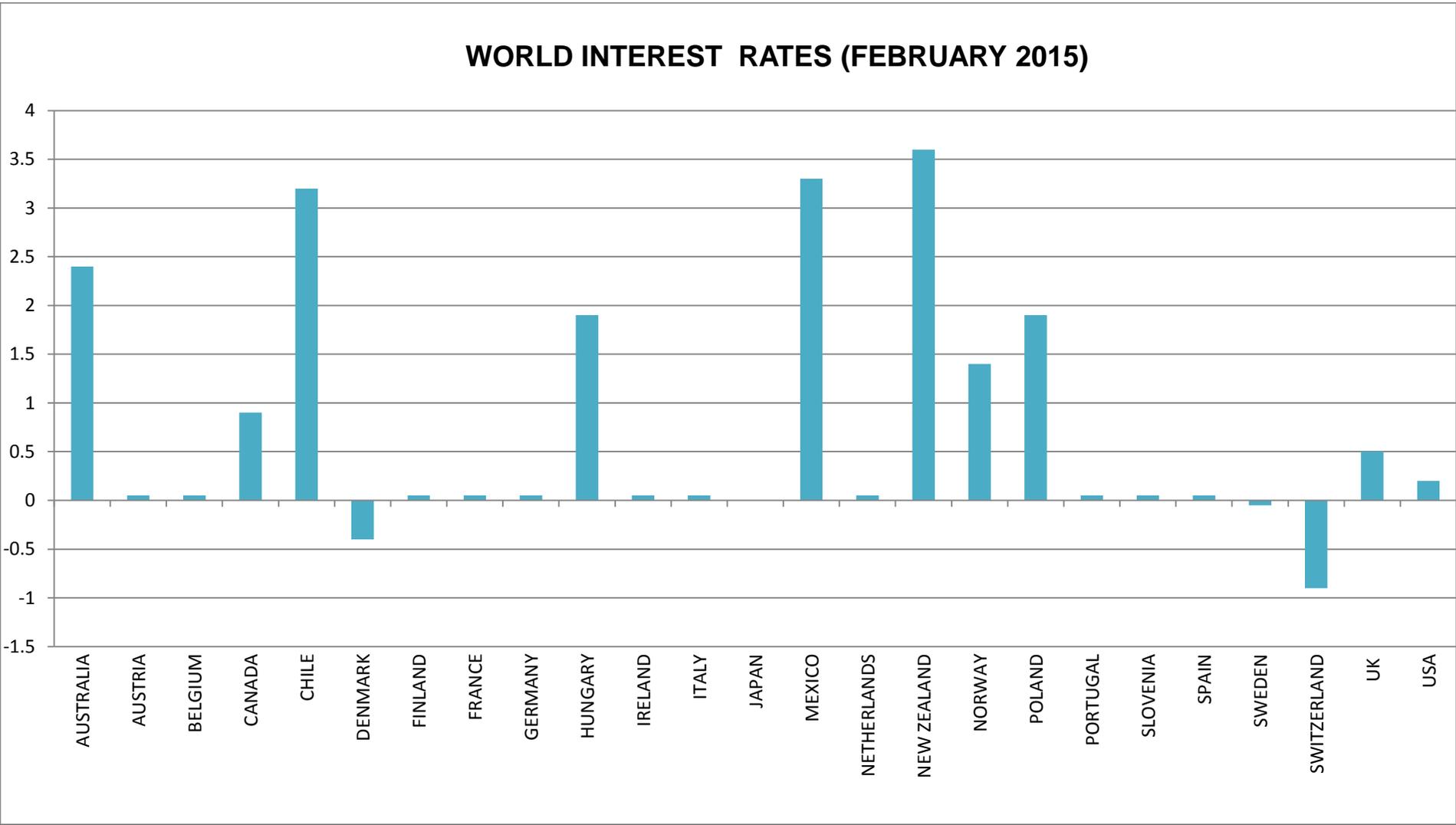
- (a) Government bonds*
- (b) Sub-sovereign bonds – provincial, municipal or territorial bonds for example*
- (c) Supranational bonds*
- (d) Corporate bonds*
- (e) Private placements*

IV. *Real Estate Investment Trusts (REITs)*

B. *Within the investment policy applicable to strategic cash:*

- (a) *All asset classes stipulated for use with operating and core cash;*
- (b) *Direct real estate holdings;*
- (c) *Equities and equity funds;*
- (d) *Hedge funds.*

[Annexes follow]



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[Annex II follows]

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+	Prime	
Aa1		AA+		AA+		High grade	
Aa2		AA		AA			
Aa3		AA-		AA-			
A1		A+		A+			
A2	P-2	A	A-1	A	F1	Upper medium grade	
A3		A-	A-2	A-	F2		
Baa1		BBB+		BBB+			
Baa2	P-3	BBB	A-3	BBB	F3	Lower medium grade	
Baa3		BBB-		BBB-			
Ba1	Not prime	BB+	B	BB+	B	Non-investment grade speculative	
Ba2		BB		BB			
Ba3		BB-		BB-			
B1		B+		B+			
B2		B		B			
B3		B-		B-			
Caa1		C	CCC+	C	CCC	C	Substantial risks
Caa2			CCC				Extremely speculative
Caa3			CCC-				In default with little prospect for recovery
Ca			CC				
C	C						
		D	/	DDD	/	In default	

[Annex III follows]

## BUILDING AN OPTIMAL PORTFOLIO

Asset category	Portfolio	Strategy A	Strategy B	Strategy C
	%	%	%	%
Money market in CHF	100	50	50	10
CHF bonds	0	50	25	25
Fgn cur. Corp. bonds (hedged in CHF)	0	0	25	20
<b>Total nominal values</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>55</b>
Equities Switzerland	0	0	0	10
Foreign equities	0	0	0	15
<b>Total equities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>25</b>
Real estate CH (funds)	0	0	0	10
<b>Total real estate</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>10</b>
Insurance-linked securities (hedged in CHF)	0	0	0	5
Hedge funds (hedged in CHF)	0	0	0	5
<b>Total alternative investments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>10</b>
<b>Total tangible assets</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>45</b>
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Foreign currency exposure	0	0	0	15


  
 Increasing diversification

<b>Risk-return figures of portfolio structures</b>	<b>Portfolio</b>	<b>Strategy A</b>	<b>Strategy B</b>	<b>Strategy C</b>
<b>Medium-term scenarios (2015-2020)</b>				
Return potential "base scenario"	-0.5%	-0.1%	0.4%	3.1%
Return potential "strong economic growth"	0.2%	-0.1%	0.8%	3.7%
Return potential "weak economic growth"	-0.6%	0.1%	0.5%	2.2%
<b>Long-term scenarios</b>				
<b>Expected return</b>	<b>-0.5%</b>	<b>-0.3%</b>	<b>0.3%</b>	<b>2.3%</b>
Historical returns (Jan. '05 – Dec. '14)	0.8%	1.9%	2.0%	4.1%
<b>Risk (annual volatility) (Jan. '05-Dec.'14)</b>	<b>0.3%</b>	<b>1.2%</b>	<b>1.6%</b>	<b>4.5%</b>

	<b>Strategy A</b>	<b>Strategy B</b>	<b>Strategy C</b>
Best calendar year	3.4%	5.7%	15.0%
Average	1.9%	2.0%	4.1%
Worst calendar year	0.1%	-0.1%	-13.1%
Best-rolling 12-month period	5.6%	8.1%	19.9%
Worst-rolling 12-month period	-1.0%	-1.6%	-14.3%
<b>Historical scenarios</b>			
Financial crisis (June 2007 – Feb. 2009)	5.3%	1.8%	-15.2%
Bond-Rallye (July 2008 – Aug. 2010)	9.1%	9.7%	6.7%
EUR crisis (April 2011 - Sept. 2012)	4.1%	5.1%	6.7%

Base: Jan. '05 – Dec. '14

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[Annex IV follows]

## INVESTMENT POLICY TEMPLATE

The external independent treasury consultants, Zanders have advised that the elements typically found within an investment policy, based on best-practice, are as follows:

1. Description of the Investor
2. Policy Purpose

*These two sections would explain that WIPO is a specialized agency of the UN, provide a brief description of its activities and explain which investments are covered by the policy (whether those relating to operating and core cash or those for strategic cash).*

3. Definition of parties involved in the investment management process

*This would cover the Investment Advisory Committee, the Treasury section of the Finance Division, the Controller, external investment managers and potentially the custodian bank.*

4. The investment responsibilities of the parties involved (as defined under point 3). This would cover such items as:

- (a) Execution and monitoring of the investment policy;
- (b) Process for reviewing and updating the investment policy;
- (c) Responsibilities for engaging and discharging external investment managers and the custodian bank;
- (d) Responsibilities for monitoring external investment managers and the custodian bank
- (e) Responsibilities for internally managed investments;
- (f) Reporting

5. Statement of investment goals, objectives and constraints

*Here, there should be a detailed description of the specific investment needs for the different types of cash holding identified (operating, core or strategic), together with details of the time horizons that apply to each cash type. This section should also include specific statements about returns and risk tolerance.*

6. Eligible asset classes with their respective credit rating levels

7. Definition of performance measures and benchmarks to be used in performance evaluation

8. Investment strategies and styles

*In this section, consideration should be given to whether the investment strategy is to be active or passive (this refers to the strategies employed by external investment managers).*

*Portfolio rebalancing guidelines based on the feedback step of the portfolio management process (see 4 (f) above).*

*This section should explain how the monitoring process will be acted upon/portfolios will be rebalanced where a risk tolerance limit has been exceeded.*