

Annex I - UNOPS Working Capital Portfolio

(referred to in section 14.3.)

1. Policy framework of UNOPS Working Capital Portfolio

1.1. The UNOPS Working Capital Portfolio consists of the accounts established pursuant to Financial Regulations 10.03 and 11.02.

1.2. This Annex refers to the portion of the UNOPS Working Capital portfolio that is not managed by the World Bank within the framework of the RAMP program.

2. Investment principles

2.1. Investment parameters

2.1.1. The UNOPS Working Capital Portfolio, as described in this Annex, shall be managed in accordance with the following objectives:

- (a) the primary objective of the UNOPS Working Capital Portfolio is to preserve nominal capital value over a rolling one-year period within the risk and tracking error limits provided in this Annex.
- (b) the portfolio management objective is to maximize risk-adjusted returns by seeking the highest possible return for the risk undertaken, strictly within the predefined risk limits and constraints established in this Policy;
- (c) investments will be managed in a cautious and risk-controlled manner consistent with the capital preservation mandate;
- (d) the active risk budget is limited to 30 basis points of annualized tracking error to constrain deviations from the Benchmark and protect capital. A stop loss on tracking error is set at 50 basis points, beyond which the Asset Manager shall consult UNOPS Treasury on reversion to the Benchmark strategy as further elaborated in section 2.7.;
- (e) liquidity priorities and capital preservation take precedence over return maximization in all investment decisions. Portfolio construction, instrument selection and active risk deployment shall be consistent with UNOPS' operational funding needs and risk appetite.

2.1.2. These Objectives lead to the following implementation considerations:



(a) the UNOPS Working Capital Portfolio employs a two-tranche structure to balance capital preservation and return generation objectives, with sub-portfolios managed against specific benchmarks, maturity profiles and risk limits;

(b) return generation within the active risk budget is pursued cautiously, recognizing that capital preservation, liquidity needs and alignment with UNOPS' operational mandate are paramount;

(c) risk budgets, limits and portfolio implementation parameters shall be reviewed at least annually and may be amended by the Executive Director, upon recommendation of the Treasurer and CFO, to maintain alignment with the primary capital preservation mandate and evolving risk appetite.

2.2. Investment time horizon

2.2.1. The investment time horizon for the UNOPS Working Capital Portfolio is set as follows:

(a) Investment Horizon for Tranche 1 is set as one year;

(b) Investment Horizon for Tranche 2 is set as two years.

2.3. Investment portfolio

2.3.1. Fixed income is a core asset class for the portfolio given the mission and objectives of the UNOPS Working Capital Portfolio.

2.3.2. The base currency for the UNOPS Working Capital Portfolio is USD, and all securities in the UNOPS Working Capital Portfolio must be denominated in USD or fully hedged to USD (within a range of +/-0.25% at total UNOPS Working Capital Portfolio level).

2.3.3. The UNOPS Working Capital Portfolio is split into two tranches. Tranche 2 has a target size of USD 500 million but there is no fixed size structure between the two tranches.

2.3.4. The portfolio shall be structured to avoid excessive concentration in a single issuer, sector or instrument type, in accordance with the counterparty and concentration limits set out in section 2.7.

2.4. Liquidity

2.4.1. For the purpose of this Annex I, "marketable" refers to a security for which a public market exists, having such liquidity and other characteristics that it would be reasonable to conclude that an investment, in the maximum size held at any one time, could be liquidated promptly (within five (5) business days) and without incurring undue transaction or market costs. A "business day" shall mean any day, Eastern Standard Time (EST), on which the Federal Reserve Bank of New York or the U.S. government securities markets are open for the conduct of official business.

2.4.2. The Asset Manager shall maintain an appropriate liquidity profile in each tranche, taking into account UNOPS' forecast cash requirements and stress scenarios, as follows:

(a) Tranche 1 shall maintain a high-liquidity profile suitable for short-term operational needs;

(b) Tranche 2 shall maintain a liquidity profile consistent with its 2-year investment horizon, while retaining sufficient flexibility to meet unanticipated funding requirements.

2.4.3. The Asset Manager shall conduct at least quarterly liquidity stress tests, simulating severe but plausible market conditions (including reduced market depth and widened bid-ask spreads), to assess



the time required to liquidate a material portion of the portfolio without breaching the CVaR risk limits in section 2.7. The results shall be reported to UNOPS Treasury and to the CFO.

2.5. Eligible instruments

2.5.1. Instruments are classified as defined by Barclays Bloomberg Classification (including, but not limited to, Treasuries, Government related and Covered).

2.5.2. Ratings Methodology:

(a) In cases where three credit rating agencies (S&P, Moody's, Fitch) are available for security issues, the middle rating shall be considered to be the overall rating. In the case of only two of these credit ratings being available, the lower rating shall be considered the overall credit rating. In the case there is only one issue rating available, the Asset Manager shall consider it to be the overall credit rating. In the absence of a specific security rating, the issuer's rating shall be applied.

(b) In the case of bank obligations, these must be rated A- using the Bloomberg Barclays indices definition of A- (must be rated minimum A- by at least two of the following ratings agencies: Moody's, S&P, or Fitch. If only two of the three agencies rate the security, the lower rating is used. If only one of the three agencies rates a security, it must be A-).

2.5.3. The following instruments are eligible for the UNOPS Working Capital Portfolio:

(a) Government Securities (should make up a minimum 50% of the investment account assets)

Any marketable bond, note or other obligation denominated in USD, or non-USD denominated fully hedged to USD, issued or unconditionally guaranteed by a sovereign government. The minimum allowable for medium/long term maturities are long term ratings AA-, Aa3, AA- and the minimum allowable for short term maturities are A-1, P-1, F-1 short term ratings as of trade date, with the exception of eligible JPY denominated securities, which have a minimum allowable long term rating of A-, A3, A-.

(b) Government Agency, Other Official Entity and Multilateral Organization Securities (limited to 50% of the investment account assets)

Any marketable bond, note or other obligation denominated in USD, or non-USD denominated fully hedged to USD, issued or unconditionally guaranteed by an agency or instrumentality of a sovereign government, or any other official entity (such as regional authorities, municipalities and other entities established to serve a governmental purpose), or a multilateral organization. The minimum allowable for medium/long term maturities are long term ratings AA-, Aa3, AA- and the minimum allowable for short term maturities are A-1, P-1, F-1 short term ratings as of trade date, with the exception of eligible JPY denominated securities, which have a minimum allowable long term rating of A-, A3, A-.

A single issuer limit of 5% will apply to the securities referenced in this paragraph.

(c) Bank Obligations (limited to 20% of the investment account assets)

The Asset Manager is authorized to hold short-term instruments (with less than 1 year to maturity). UNOPS consents to any such deposits being made with those approved banks which meet the Asset Manager's criteria for such deposit takers from time to time, and shall include the custodian bank accounts and its deposit facility.

The short term instruments must meet the following criteria: any deposit placed with a bank, a certificate of deposit, commercial paper or other obligation issued or unconditionally guaranteed by a bank provided that the obligation: (i) is denominated in USD (or fully hedged to USD); (ii) will mature in less than one (1) year; and (iii) is issued or unconditionally guaranteed by a bank whose issuer credit rating is, or senior debt securities are, rated at least A- or its equivalent. Bank Obligations are limited to 2% of the portfolio per single issuer/name.

(d) Exchange-Traded USD Interest Rate and US Treasury Futures

USD denominated exchange-traded interest rate futures and US Treasury futures contracts.

Interest rate derivatives may only be used for:

- (i) duration management within tactical allowances as outlined in section 2.7.5;
- (ii) efficient portfolio management, which includes activities that reduce risk, reduce cost, or generate modest additional return without material risk increase relative to the benchmark, which could inter alia include curve positioning strategies.

Permitted uses of exchange-traded interest rate and US Treasury futures shall include:

- (i) maintaining portfolio duration within the permitted range around the benchmark;
- (ii) implementing limited yield curve positioning strategies within the risk budget;
- (iii) hedging interest rate risk during periods of significant market volatility.

The aggregate notional exposure (defined as notional exposure of long futures minus notional exposure of short futures) to interest rate derivatives shall not exceed 30% of the market value of the UNOPS Working Capital Portfolio. All such positions shall be fully covered by eligible collateral and subject to daily margining with approved counterparties.

(e) Covered Bonds (limited to 20% of the investment account assets)

Any marketable covered bond, provided that it is rated AAA, or its equivalent. A single issuer limit of 5% will apply to Covered Bonds.

(f) US Agency Mortgage Backed Securities (Tranche 2 only) (limited to 20% of the value of Tranche 2, and not the total value of the investment account assets).

(g) Non-USD denominated Assets

A maximum holding of 20% of UNOPS Working Capital Portfolio assets in non-USD denominated government, government related, government agency, other official entity, multilateral organization, covered bonds or bank obligations fully hedged back to USD within a range of +/- 0.25% at the total UNOPS Working Capital Portfolio level.

(h) Forward FX Contracts

The use of Forward FX contracts for the purpose of hedging non-USD currency positions back to USD (as base currency) is allowed.

2.6. Benchmark

2.6.1. The UNOPS Working Capital Portfolio shall be managed against the following benchmark, net asset value-weighted composite (rebased daily in USD):



- (a) Tranche 1: BofA Merrill Lynch U.S. Treasury Notes & Bonds, 0-1 Year index (G0QA);
 - (b) Tranche 2: BofA Merrill Lynch U.S Treasury Notes & Bonds, 0-3 Year Index (G1QA)
- (combined the "Benchmark").

2.6.2. The suitability of the Benchmark shall be reviewed at least annually by UNOPS Treasury, and any proposed changes shall be submitted for approval to the Executive Director.

2.7. Risk limits

2.7.1. **Tracking Error:** Annualised tracking error, which is measured as the standard deviation of excess returns, is expected to be at or below 30 basis points per annum.

2.7.2. **Tranche Risk Limits:** The Risk Limits regarding the UNOPS Working Capital Portfolio tranches are defined as follows:

- (a) Risk Limit for Tranche 1 is one year 95% CVaR of -0.5%.
- (b) Risk Limit for Tranche 2 is one year 95% CVaR of -1%.

2.7.3. **Active Risk - Stop Loss:** If at any time during UNOPS' fiscal year, the return of the UNOPS Working Capital Portfolio reaches a level of fifty (50) basis points below the return of the Benchmark, the Asset Manager shall consult UNOPS Treasury on whether to revert to the Benchmark strategy for an agreed period.

2.7.3.1. The Asset Manager shall provide an attribution analysis identifying the sources of underperformance and a plan for reducing active risk, including potential reversion to a more benchmark-neutral position.

2.7.4. **Risk Budget:** The risk budget associated with the 30bps tracking error may be allocated across duration positioning, credit selection, yield curve positioning, and instrument and hedging strategies (including derivatives).

2.7.4.1. The Asset Manager shall report at least quarterly, where the data is available, on the contribution to active risk by each of the above dimensions and highlight any positions contributing more than 5 bps of tracking error.

2.7.5. **Duration and Tenor:** The Asset Manager shall maintain the portfolio duration within a range of plus or minus six (6) months weighted duration versus the Benchmark stated in section 2.6.

2.7.5.1. Within this duration band, the Asset Manager may employ a maturity laddering strategy, particularly for Tranche 1 and Tranche 2, to manage reinvestment and liquidity risk, ensuring a diversified distribution of maturities across the 0-3 year horizon.

2.7.6. Counterparty and Concentration Limits

2.7.6.1. In addition to the 2 per cent per issuer limit and 20 per cent total investment account assets for Bank Obligations in section 2.5.3, the following concentration limits shall apply with the exception of US Treasuries (expressed as a percentage of the market value of the UNOPS Working Capital Portfolio):

- (a) Single sovereign issuer rated AAA or equivalent: maximum 25%;
- (b) Single sovereign issuer rated AA or equivalent: maximum 15%;
- (c) Single sovereign issuer rated A- or equivalent: maximum 10% (applies to Japanese Government Bonds "JGBs" only);



(d) Single supranational or multilateral development bank: maximum 5%;

(e) Aggregate exposure to non-USD denominated assets (fully hedged): maximum 20%.

2.7.6.2. The Asset Manager shall monitor these concentration limits at least weekly and report any breach to UNOPS Treasury within two (2) business days, together with a remediation plan.

2.8. Additional provisions

2.8.1. The market value of tradable securities held at any time in the portfolio, determined on a settlement date basis, shall not exceed the size of the investment account assets. For the avoidance of doubt, the foregoing limitation on leverage shall not apply in the event of operational issues, including but not limited to settlement failure, which are not directly related to investment decisions, but may arise in the ordinary course of business.

2.8.2. The minimum credit rating eligibility threshold stipulated for each eligible instrument or issuer, as applicable, shall apply at the time of the purchase of the instrument by the Asset Manager.

(a) If, after the purchase, any instrument or issuer, as applicable, is downgraded below the applicable minimum credit rating, the Asset Manager shall promptly notify the UNOPS Treasurer and the UNOPS CFO and await further instructions.

(b) If, after the purchase, any issuer that is part of the Benchmark is downgraded below the applicable minimum credit rating, the Asset Manager shall promptly notify the UNOPS Treasurer and the UNOPS CFO and seek confirmation as to a waiver by these individuals of the minimum credit rating in respect of such issuer or indication of a new benchmark or any other action in UNOPS' discretion.

2.8.3. In the event that UNOPS, as part of its instructions, directs the Asset Manager to dispose of any instrument pursuant to Section 2.8.2 (a) or (b) above, the Asset Manager shall effect such disposition as soon as reasonably practicable, taking into account prevailing market conditions as well as the remaining potential risks, but shall in no event be liable to UNOPS for any losses that UNOPS might incur in connection with the disposition of such an instrument.

2.8.4. The Asset Manager shall conduct, at least quarterly, portfolio-level stress tests covering interest rate shocks, credit spread widening and combined risk scenarios, and provide the results to UNOPS Treasury and CFO together with any recommended mitigating actions.

2.9. Securities lending, borrowing and overdrafts

2.9.1. Securities lending is operated on behalf of UNOPS by the Custodian. The Asset Manager shall not undertake securities lending on behalf of UNOPS. Borrowing and overdrafts are not permitted.

2.10. Ethical restrictions and ESG criteria

The investment management strategy and the Asset Manager makes a conscious decision to avoid investments in securities of companies with the following characteristics:

2.10.1. Companies that derive any revenue from the production of military weapons, weapons systems or weapons of mass destruction, including nuclear, chemical or biological weapons, or derive any of their revenue from the production of customized components for purposes of the production of military weapons, weapons systems or weapons of mass destruction.



2.10.2. Companies that derive any revenue from the production of tobacco and that primarily deal with the manufacturing and distribution of tobacco and tobacco-related products.

2.10.3. Companies that derive any revenue from the extraction and use of thermal coal.

2.10.4. Companies that derive any revenue from the production of oil from tar sands.

2.10.5. Companies that derive any revenue from direct exposure to adult entertainment.

2.10.6. Banks that derive any revenue from predatory lending practices. The manager shall apply an exclusion list for bonds issued by banking issuers involved in any predatory lending activity, based on proprietary data or interpretation of data sourced from ISS-ESG. Restrictions would not apply to banks in their capacity as trading counterparty for physical securities and derivatives.

2.10.7. Companies that, according to MSCI methodology or similar as defined in the Asset Management Agreement with the Asset Manager, are classified as failing or breaching at least one of the principles of the following international frameworks: United Nations Global Compact Principles (UNGC), the International Labour Organization's (ILO) conventions, and the United Nations Guiding Principles on Business and Human Rights (UNGPR).

2.10.8. All individual fixed income securities (with the exception of US Treasuries) with an MSCI ESG rating of BB or below are prohibited. An alternative ESG rating metric may be used and must be defined in the Asset Management Agreement with the Asset Manager. This ESG rating metric should be the equivalent of the MSCI ESG ratings scale.

2.10.9. UNOPS recognizes the critical importance of stable food supplies for the world's most vulnerable populations. To ensure that its financial instruments do not contribute to the destabilization of the market for basic food commodities, the investment management strategy does not allow any financial derivatives on soft commodities.