



Reserves Management: The Central Bank of Barbados Perspective

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Reserves Management Framework

- Governance
- Investment Policy Framework
 - Portfolio Tranches
 - Investment objectives
 - Permissible asset classes
 - Portfolio characteristics
 - Risk management
- Investment Strategy
- Considerations

Governance

Central Bank of Barbados Act

- Central Bank of Barbados Act, Section 26 (1) under the caption “Reserves of External Assets” provides the legal authority and permissible assets for inclusion in the reserves portfolio.
- Board of Directors
 - Governing body for the reserves management function
 - Approves the Investment Policy and Investments Guidelines
 - Receives quarterly reports of portfolio activity and performance

Governance Cont'd

- Investment Committee
 - Responsible for managing the investment assets of the Bank in accordance with the Central Bank of Barbados Act and the Investment Policy Statement and Guidelines approved by the Board of Directors.
 - Formulating the overall investment policies of the Bank, subject to approval by the Board;

Governance Cont'd

- Investment Committee Cont'd
 - Establishing investment guidelines in furtherance of approved policies;
 - Monitoring the performance of internally and externally managed portfolios for compliance with investment policies and guidelines and for meeting objectives.

Internal Audit

- Ensure compliance with the approved Investment Policy & Guidelines and that best practices are employed with respect to risk management when executing the investment policy.

Investment Policy Framework

- Portfolio Tranches
- Investment objectives
- Permissible asset classes
- Portfolio characteristics
- Risk management

Portfolio Tranches

- Liquidity Tranche
 - Working balances
 - Holdings with maturities not exceeding six (6) months
- Core Tranche
 - Medium to long term investment horizon
 - Diversified portfolio holdings

Portfolio Tranches Cont'd

- External Asset Manager Tranche
 - A portion of the reserves managed externally to offer diversification and maximise reserves within a conservative risk environment
 - Medium to long term investment horizon
- Special Tranche
 - To show support for a particular institution, investments issued by CARICOM countries and certain international institutions

Investment Objectives

- Preservation of capital
- Income generation
- Liquidity

Permissible Asset Classes

- Money market instruments
- Fixed and Floating rate securities
- Treasuries
- Securitised assets
- Agencies
- Supranational issues
- Sovereign issues

Portfolio Characteristics

- Minimum credit rating A or equivalent
- Maximum term: 10 years
- Currency: US dollar denominated
- Allocation limit is based on issue size
- Portfolio duration relative to the benchmark deviation +/- 30 basis points

Risk Management

The portfolios are managed within a conservative risk profile and the following risks are minimized or mitigated:

- Interest rate risk
- Credit risk
- Liquidity risk
- Market risk
- Issuer risk
- Security risk

Investment Strategy

- Increasing interest rate environment after several years of low interest rate regime resulting in the flattening of the yield curve
- Pace of rising interest rate environment:
 - Faster than anticipated
 - Impact on duration play
- Improved portfolio yield due to market conditions while maintaining risk profile

Investment Strategy Cont'd

- Increase allocation to Asset Backed Securities as the 2 year Swap curve, off of which the securities are priced, had widened significantly
 - Benefit from improving economic growth and tightening labor markets
 - Strong fundamentals and robust liquidity
- Looking for opportunities within the Mortgage Backed Securities space as valuations improve and become attractive
 - Cheaper due to interest rate volatility
 - Impact of Federal reserves not participating in the MBS market

Investment Strategy Cont'd

- Reduce exposure to Agencies as there is no spread advantage relative to other asset classes
- Positioning of portfolio on the yield curve
 - Front end of the curve
 - Ideal position - 3 year maturity bucket
- Duration play: short or neutral to benchmark

Investment Strategy Cont'd

- Barbell strategy due to the flattening of the yield curve
- Use of futures for duration management
- Removal of distinction of limits for securitized products
- Use of Treasuries as a defensive position

Considerations

- Amendment to Central Bank Act to widen the universe of permissible asset classes
- Implementation of a new benchmark
 - Development of customised benchmark or the use of market-based benchmark
- Review and update of the existing investment policy
- Participation in the World Bank Reserves Asset Manager Program



Thank You

Questions and Answers

