



# **BCRP's changes to the investment approach/process over the past and going forward**

**Sandra Mansilla**

**Deputy Manager, International Investments  
Central Reserve Bank of Peru (BCRP)**

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Mexico City, March 30-31, 2017**



## **AGENDA**

1. Organizational Structure
2. Investment Decision Process and Asset Allocation
3. Reaction to easing/contracting cycles
4. Summary of changes in Investment Policy

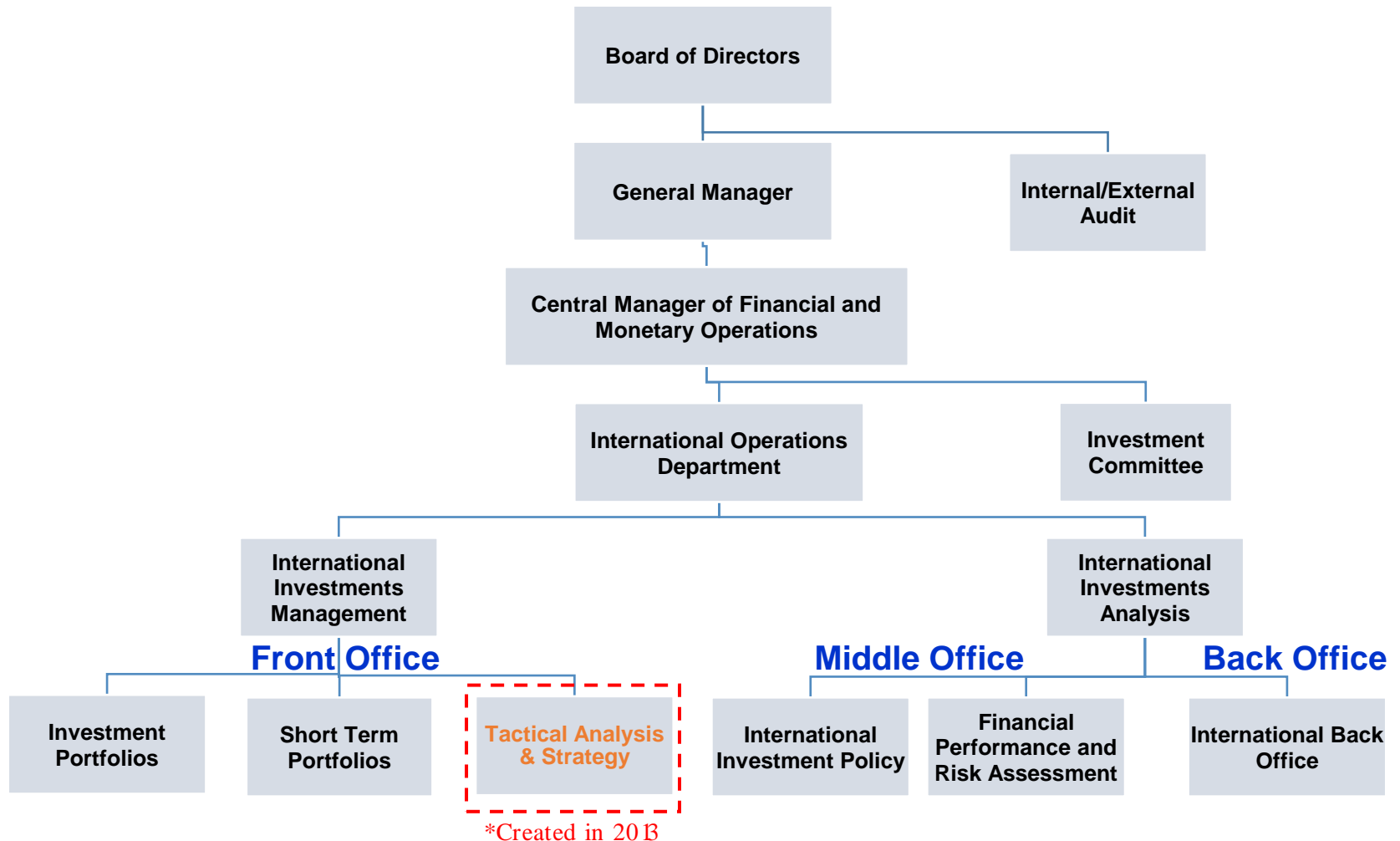


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# 1. Organizational Structure





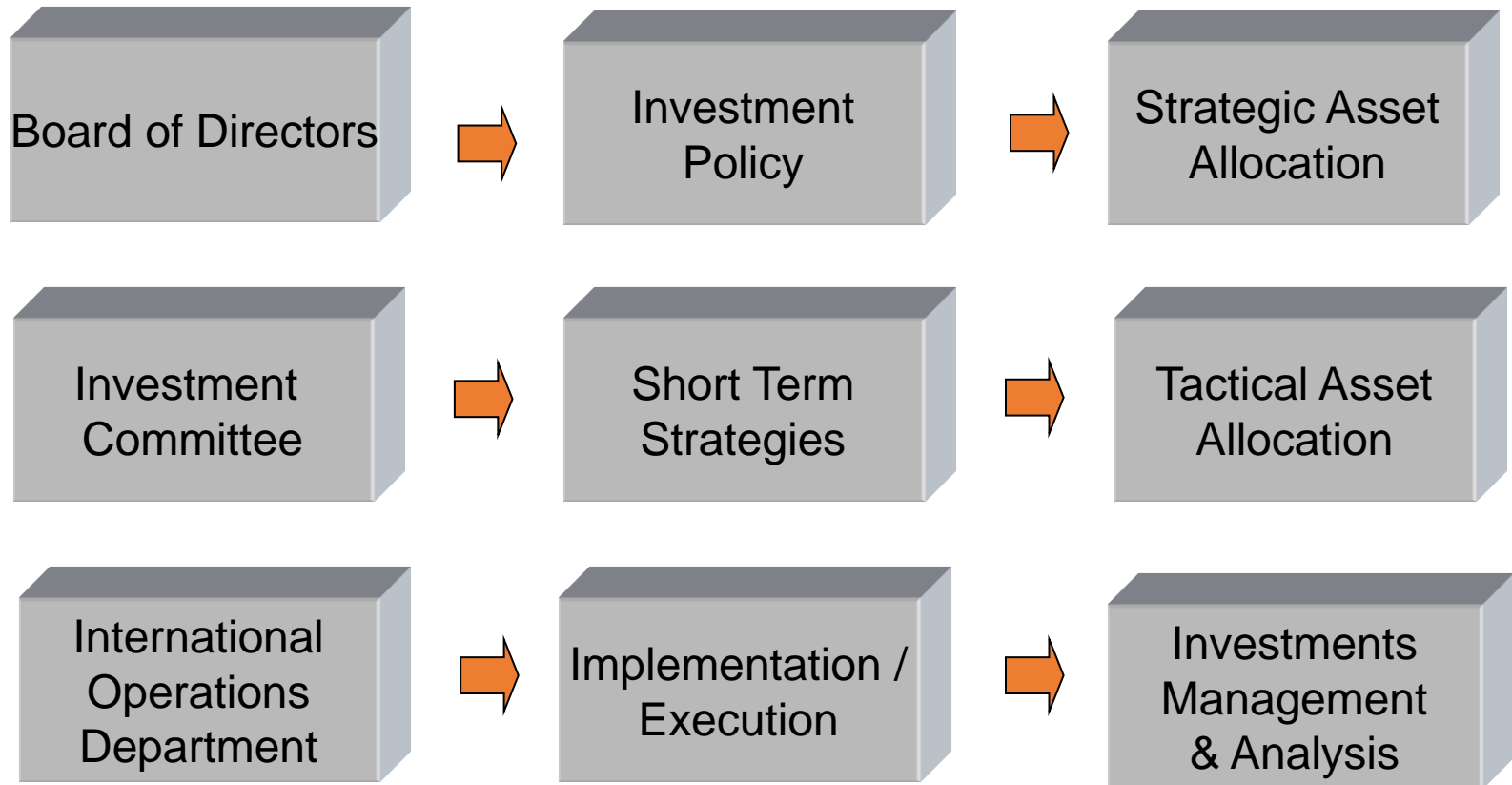
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## 2. Investment Decision Process and Asset Allocation

### Decision-Making Process





## 2. Investment Decision Process and Asset Allocation

### Investment objective

**Safety, liquidity and return**, in that order according to article 71 of BCRP Charter Law.

### Management by tranches

1. Working Capital
2. Liquidity
3. Intermediation
4. Investment
5. Diversification and Special Investments



## 2. Investment Decision Process and Asset Allocation

### Portfolio Tranches

Portfolio Tranches	Instruments	Counterpart by Passive Type
<b>Working Capital</b>	Very liquid assets (Overnight deposits)	Reserve requirements and commercial banks deposits
<b>Liquidity</b>	Very short term deposits.	Reserve requirements and commercial banks deposits
<b>Intermediation</b>	Term deposits, Money Market instruments & Short term fixed income instruments.	Treasury & Government Public Institutions deposits
<b>Investment</b>	Term Deposits Fixed Income Instruments	Foreign Exchange Position
<b>Diversification and Special Investments</b>	Deposits and CDs in RMB Bonds denominated in RMB	Foreign Exchange Position
<b>Gold</b>	Gold Deposits	Foreign Exchange Position





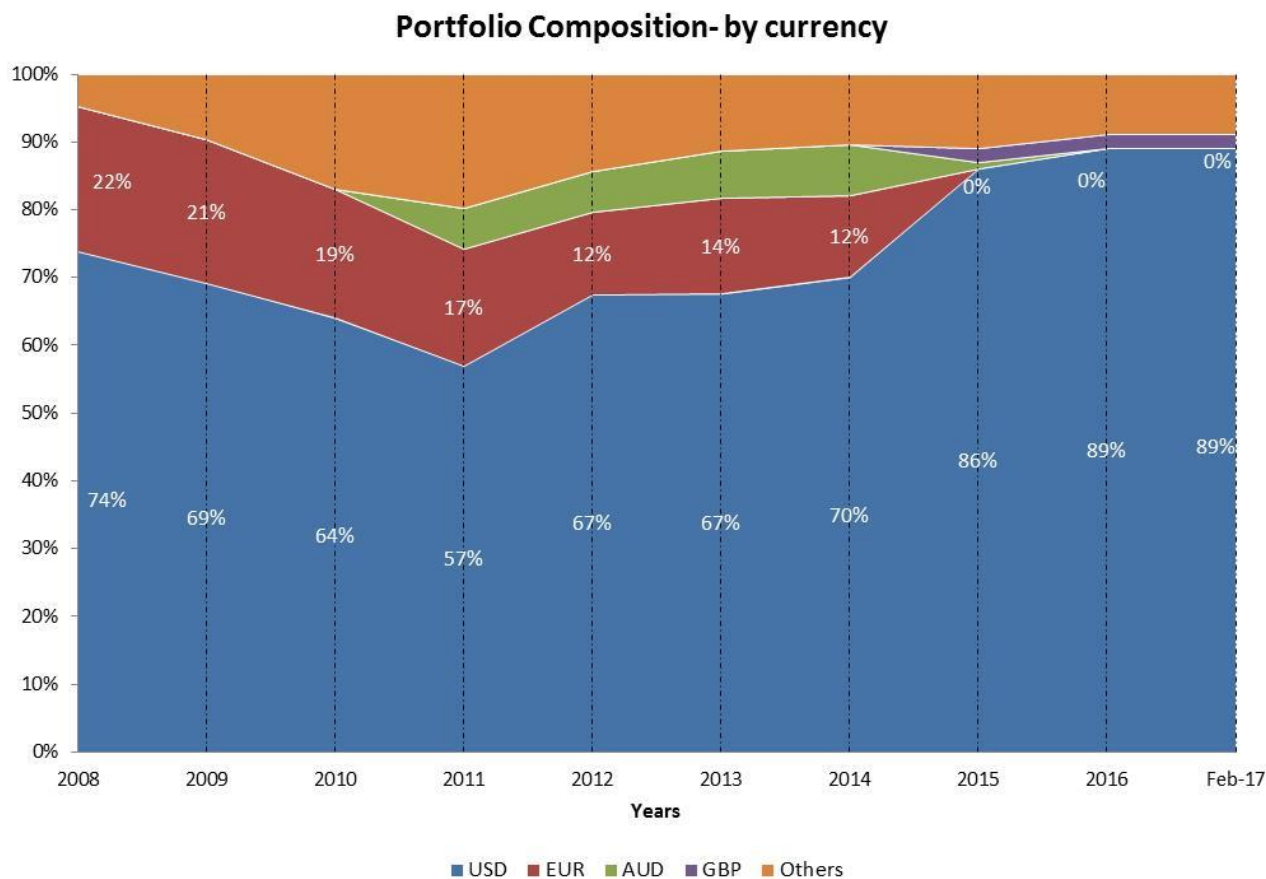
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### 3. Reaction to easing/contracting cycles

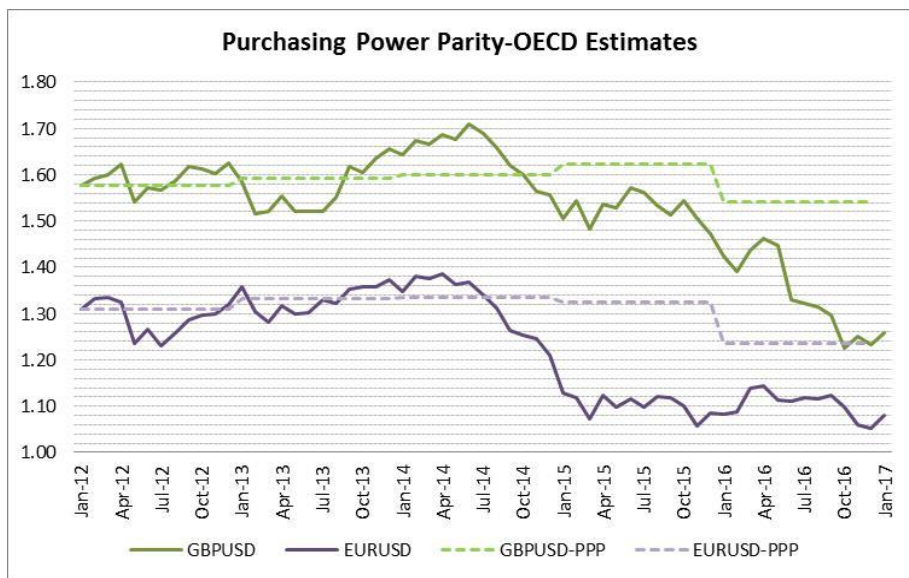
#### Diversification vs. concentration





# 3. Reaction to easing/contracting cycles

## But...are there opportunities in currencies?



EUR and GBP are well below their PPP exchange rates... but too much uncertainty ahead: Political risk and uncertain end of ultra loose monetary policy (EUR), Brexit negotiations (GBP), FED monetary policy against Trump's policies (USD)

BUSINESS NEWS | Tue Feb 7, 2017 | 9:54am EST

### Trump's policies to drive FX, but strong dollar here to stay: Reuters Poll

### Marine Le Pen could 'blow up' the European Union, and the fear's starting to show

Fred Imbert | @foimbert  
Saturday, 18 Feb 2017 | 9:00 AM ET



Brexit negotiations might take 10 years - if we're lucky

John Crace



### If Fed wants 3 rate hikes this year, it needs to move in March: Former Dallas Fed advisor

Michelle Fox | @MFOxCNBC  
Wednesday, 22 Feb 2017 | 3:47 PM ET

### ECB Delivering a Dovish Taper Reinforces Bets on Euro Party

THE WALL STREET JOURNAL  
Subscription: 1 year \$12 for 12 weeks

### ECB Extends but Tapers Stimulus Program

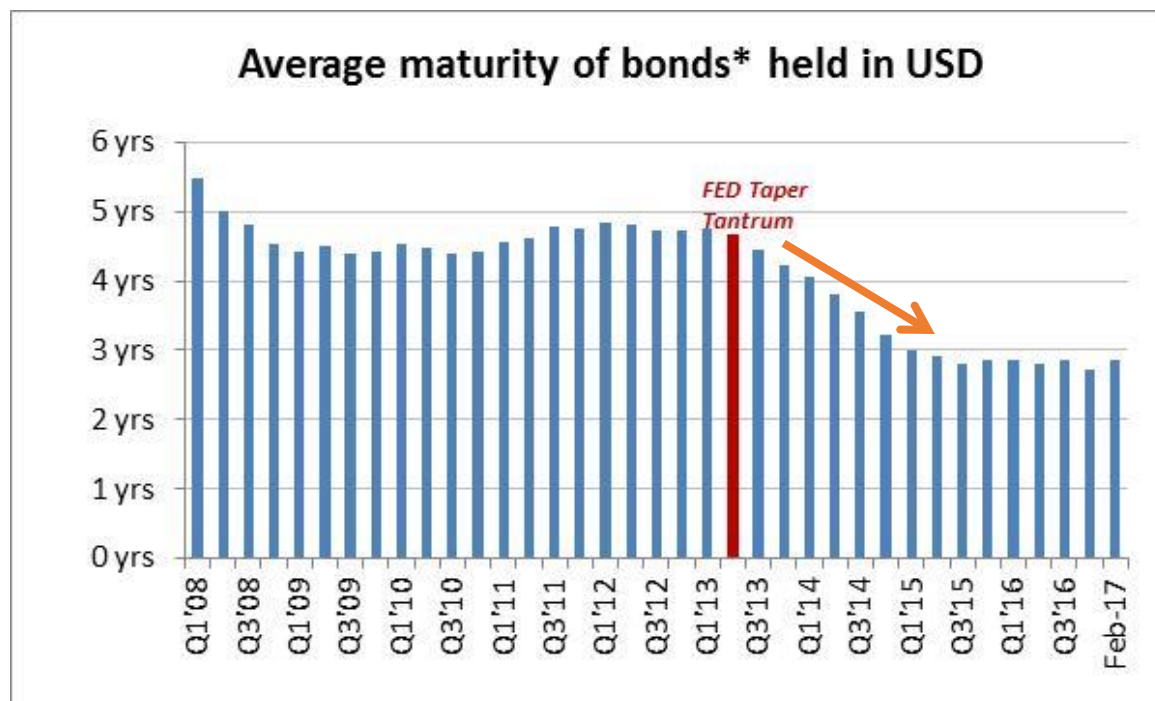
Last updated Dec 8, 2016 at 9:35 am ET  
The European Central Bank held rates steady and extended its monetary stimulus to end of 2017, will reduce levels after March to 60 billion euros a month. Follow the WSJ's live coverage including analysis and market reaction.

### Italian banks on brink of running DRY: Rome forced to bend EU rules in emergency bailout



### 3. Reaction to easing/contracting cycles

#### Extending vs. reducing duration



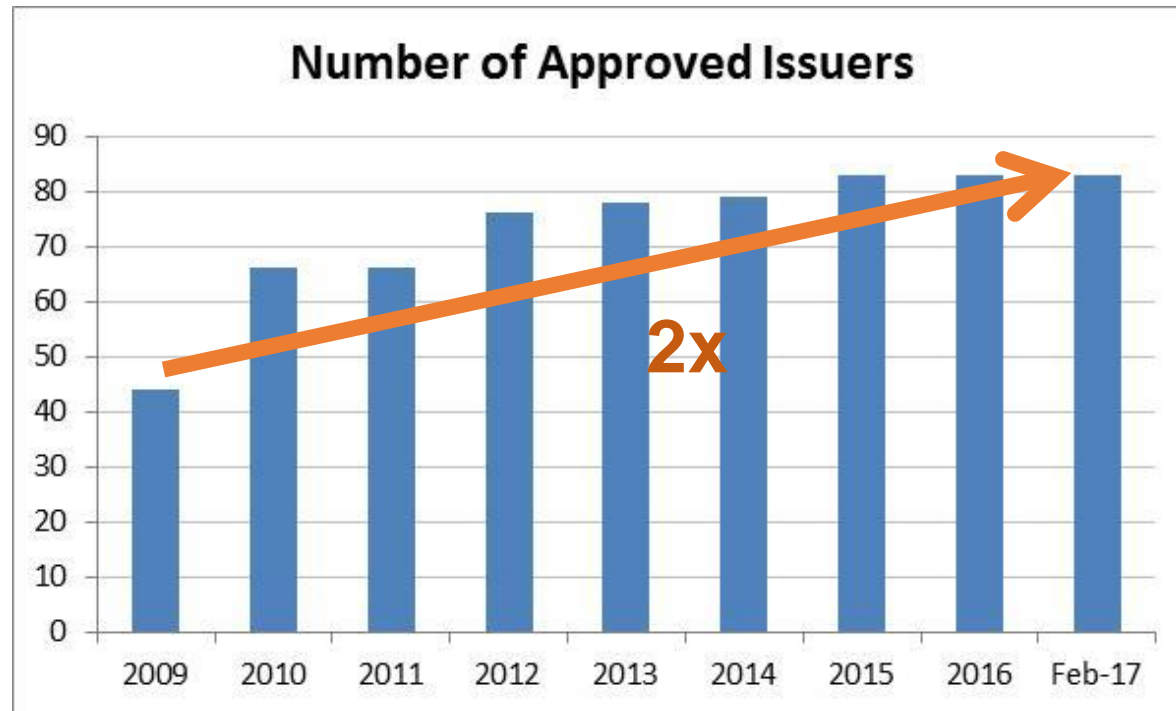
\*90th percentile ranked by maturity (from shortest to longest)

FED's taper tantrum prompted us to *reduce duration*



### 3. BCRP's reaction to easing/contracting cycles

Less currencies but more names in our portfolio...

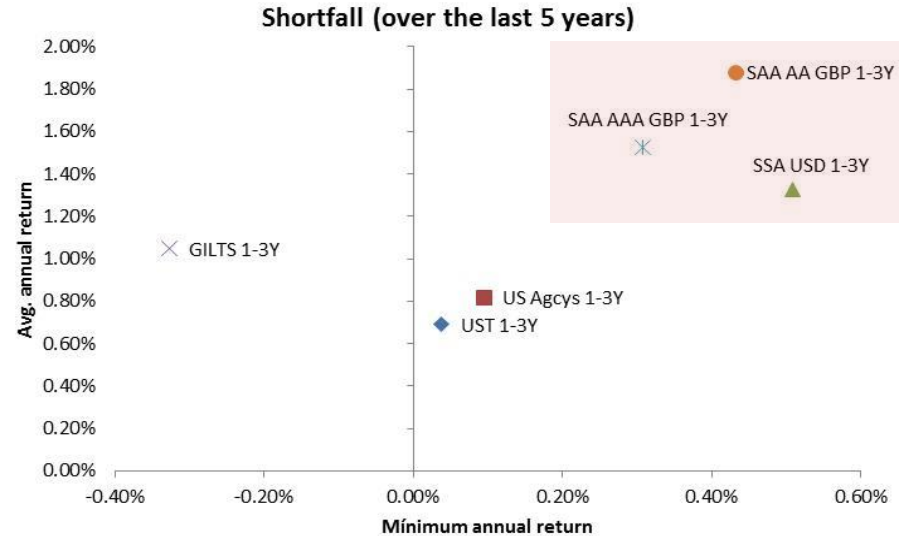
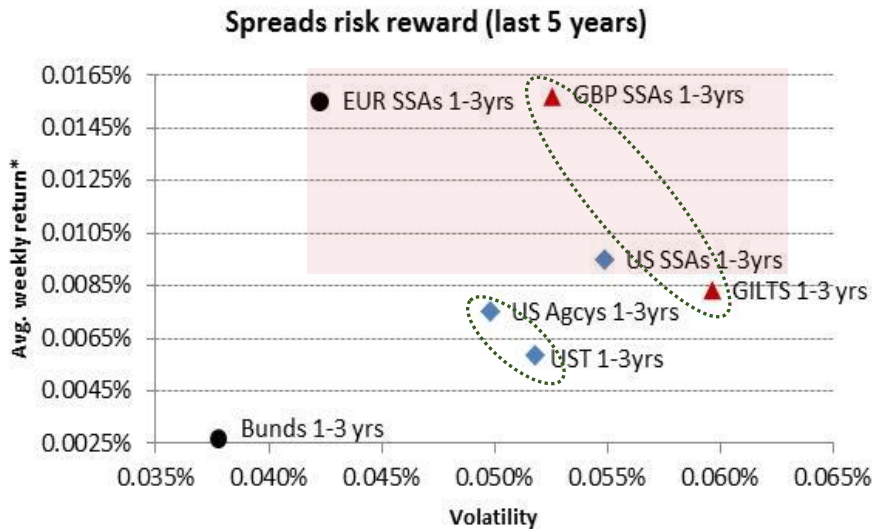


In 2016, we added 7 new names to our external asset manager's list of approved issuers



# 3. BCRP's reaction to easing/contracting cycles

## And more spreads...



\*Duration-adjusted weekly returns. Calculated using weekly data of BofAML Bond Indices. Volatility is the standard deviation of weekly returns

In different currencies, spreads are still attractive. They have offered the highest reward for risk compared to government bonds, and we believe they will continue to do so in the short / medium term.



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## 4. Summary of changes in Investment Policy

	Over the last 3 years...
<b>Benchmark</b>	Reduction of duration
<b>Diversification and Special Investments</b>	Incorporation of BISIPs in CNY
<b>Regulation</b>	Adherence to ISDA DF1 & DF2 Protocols
<b>Currency Composition</b>	Sold euro portfolio and incorporated pounds in the Investment tranche
<b>Derivatives</b>	Incorporation of UST Futures
<b>External Asset Manager</b>	Expansion of approved issuer's list

- Our asset allocation have shifted to USD, while keeping some minimal exposure in GBP and RMB. RMB, in particular, provides higher yield to our portfolio.
- The approved issuers base has increased and we still favour investing in spreads , although cautious about their future performance.
- Looking forward, we are exploring the possibility of entering into more complex structured products using external asset managers. Also, we are going to review if the current benchmark (duration and composition) properly reflects BCRP's risk profile in this "close to" monetary policy normalization environment.