



Session 2:
Managing Large Portfolios in the Current Market Environment

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ON INVESTMENT MANAGEMENT
OF FOREIGN EXCHANGE RESERVES**



2026 Asian Regional Forum on Investment Management of Foreign Reserves

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Solving Complex
Challenges Together
for 60 Years

Agenda

Solving Complex Challenges Together for 60 Years

1. Investment Environment

Market backdrop over the past five years and its impact across asset classes

2. Higher Interest Rates – Duration Positioning

Extending the target portfolio duration to capture attractive income prospects

3. Tight Credit Spreads – Allocation Review

Revisiting credit rating and management approach for the corporate bond allocation

Investment Environment



Over the past five years, markets have been dealing with successive challenges and unexpected developments, including:

Supply chain disruptions leading to the resurgence of inflation, followed by central banks' response to higher inflation and consequent impacts on global interest rates and the banking sector,

More recently, as inflation was slowly getting back under control, the resurgence of geopolitical tensions is pushing major central banks into increasingly hawkish directions,

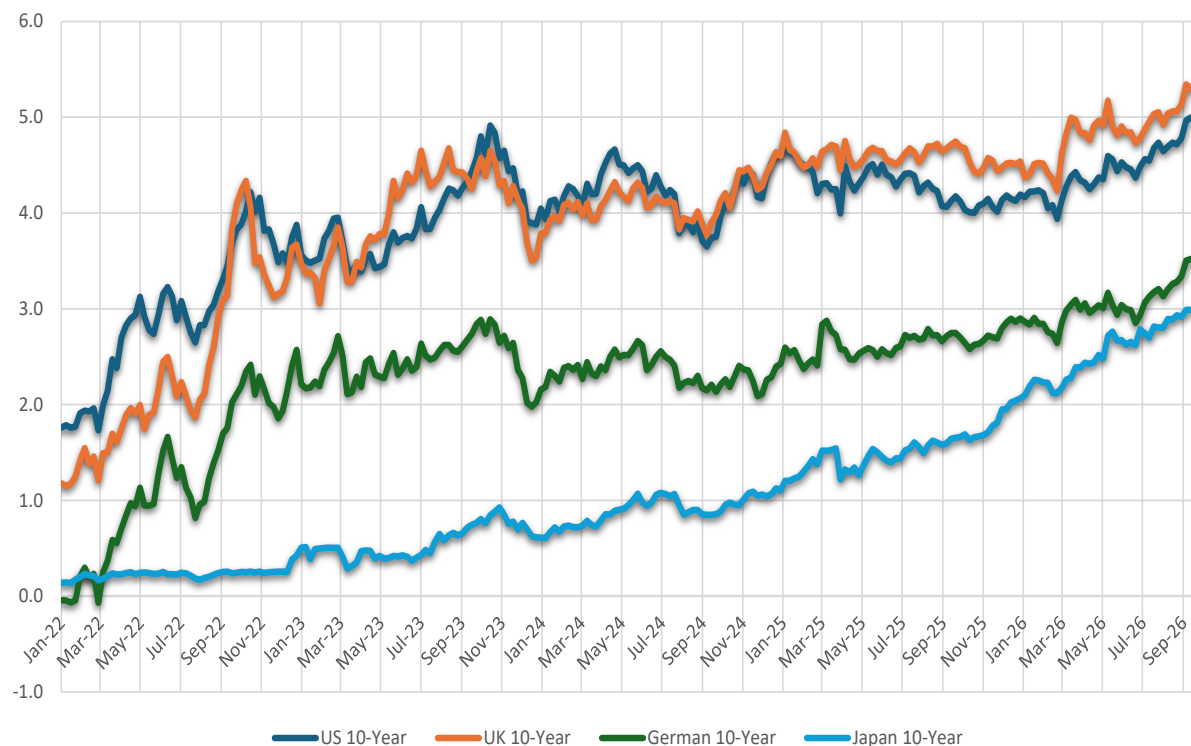
Meanwhile, the AI buildout is continuing, fueling growth expectations but also raising concerns about ability to generate returns

Investment Environment

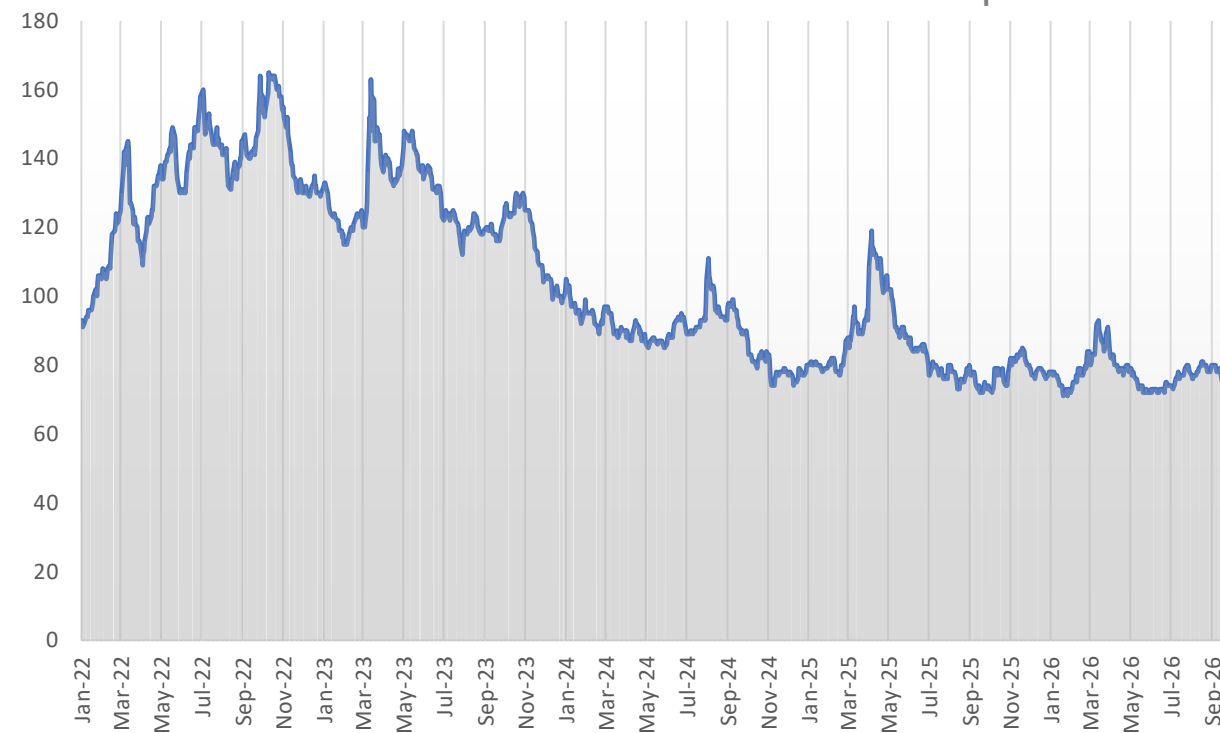
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Translating into significant impacts on all financial markets, including equities, commodities, FX as well as...

Sovereign 10-Year Yields



USD Investment Grade Credit Spreads



Higher Interest Rates (1 of 2)



Higher interest rates are presenting attractive income prospects for fixed income portfolios, but

market events/yield curve dynamics require flexibility to adjust positioning

This results in a strategic **extension of target duration**, from 3Y to 5Y, with a maximum deviation from target increased from +/- 1 Year to +/- 2 Years.

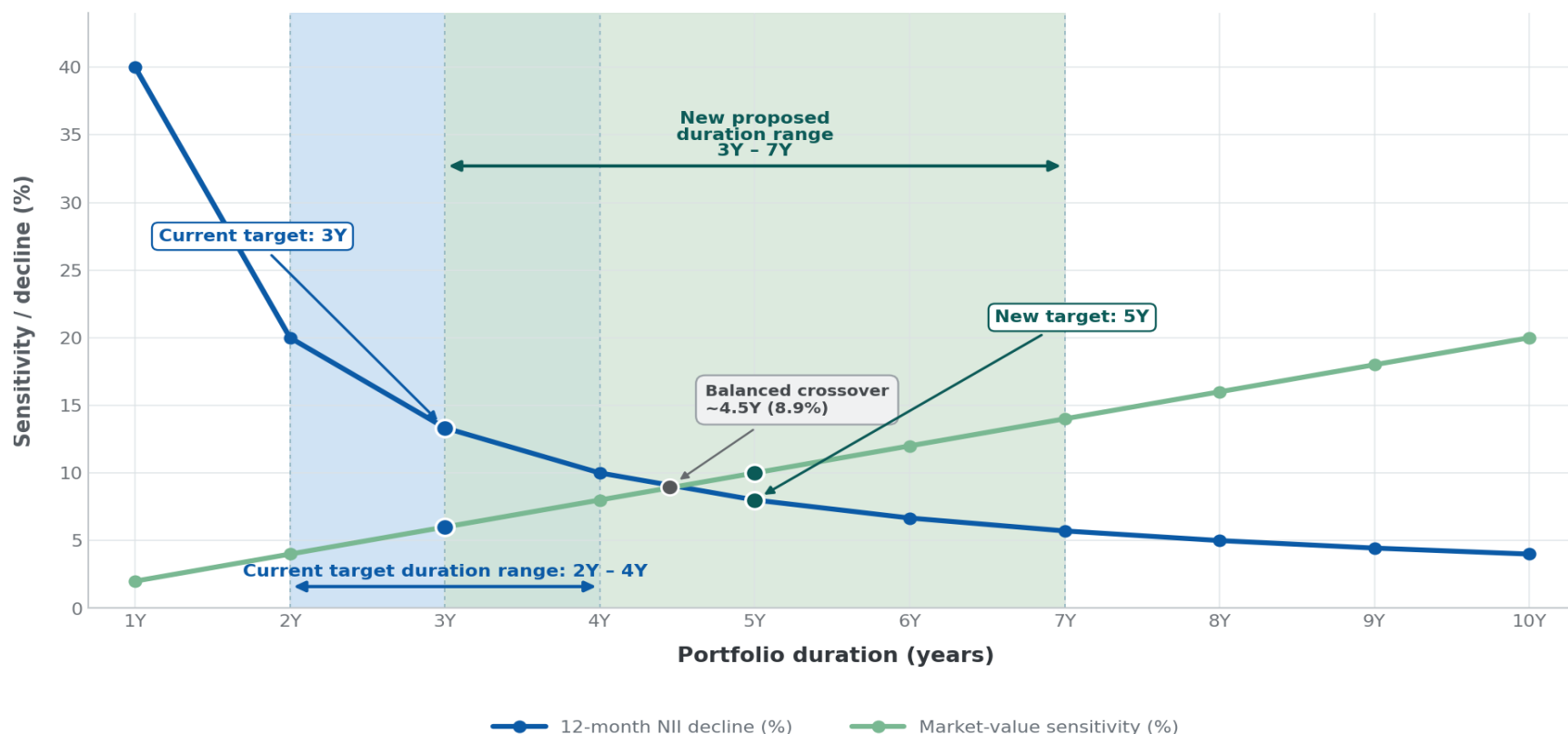
Higher Interest Rates

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Duration positioning is a balancing exercise between Net Interest Income (NII) and Market Value (MV) sensitivities

Current and New Duration Ranges driven by NII and Market Value Sensitivities

Current U.S. Treasury yield environment | 200 bp parallel-rate scenario



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Higher Interest Rates (2 of 2)



With two key drivers:

1) Absolute level of interest rates

Higher interest rates increase the incentive to minimize a potential decline in Net Interest Income should levels decline

Current level: representative UST yield of ~5.0% (based on par yields as of 28 September 2026)

2) Shape of the curve

Regardless of absolute levels, a steeper curve translates into higher Net Interest Income in the long run

Current curve slope: 2s10s at approximately +32 bps (positively sloped, as of 28 September 2026)

Tight Credit Spreads (1 of 2)



Tight credit spread environment is not conducive for a larger allocation to spread products

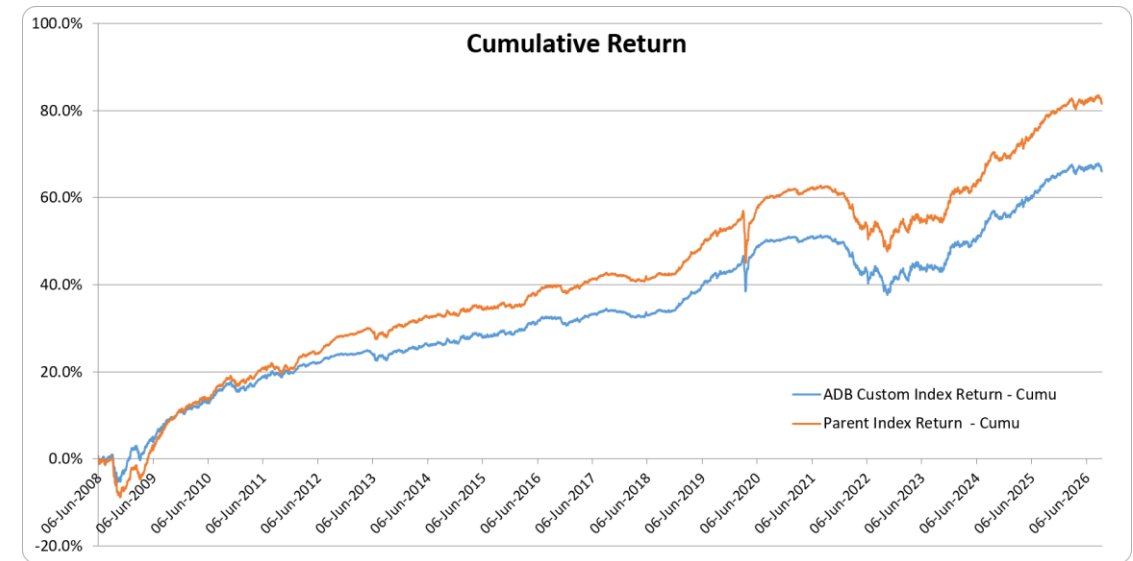
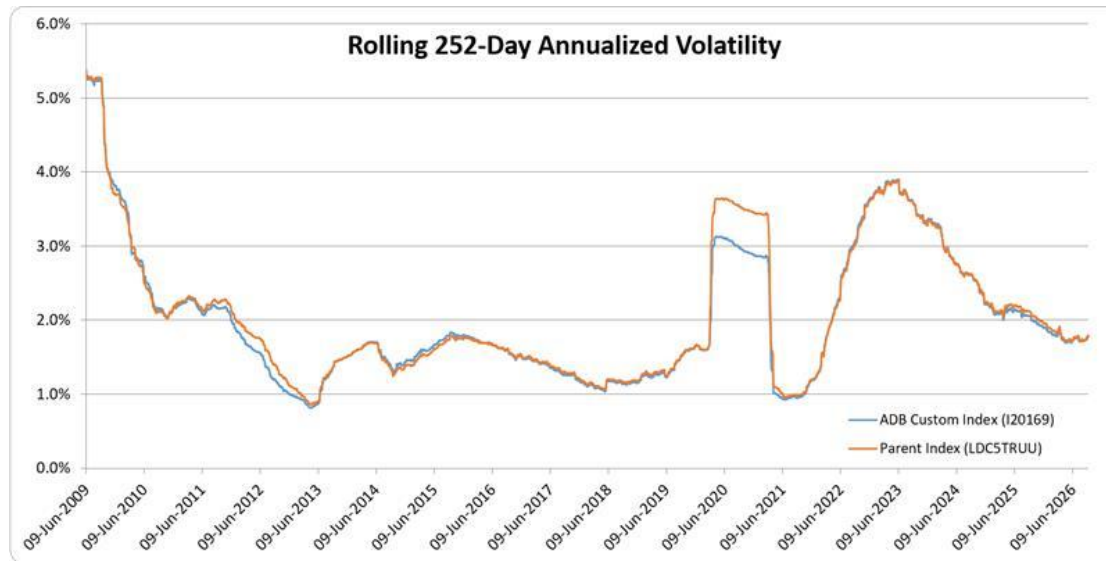
Total allocation will remain unchanged (20% of ADB's USD Equity-funded liquidity) across externally managed asset classes

Allocation size remains unchanged at 20%; the proposed changes below affect composition and management approach only

Tight Credit Spreads

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Historical comparison since 2008 of ADB Custom Index (A- min rating for non-bank corporates) against its Parent Bloomberg 1-5 Corporate bond Index (BBB- min rating) shows relatively similar realized volatility, but lower cumulative returns...



Index	Realized Volatility	Cumulative Return
ADB Custom Index (A- min)	~1.8%	~66%
Parent Index – Bloomberg 1-5 Corp (BBB- min)	~1.8%	~82%

Tight Credit Spreads (2 of 2)



As a result of those historical observations,

The ADB Custom Index has cumulatively trailed the Parent Index by approximately 15 percentage points in cumulative return since inception, as shown on the preceding chart

- 1) A change in the minimum rating requirement for non-bank corporates from A- to BBB
- 2) A switch from passive to active management

Both changes have been proposed and may be approved later this year

Summary

Solving Complex Challenges Together for 60 Years

Market dynamics over the past few years are leading to two key changes to the investment strategy for the USD Equity-funded portfolio

1) Extend target portfolio duration from 3Y to 5Y

With deviation band widened from +/- 1 Year to +/- 2 Years. Market risk limits will also have to be recalibrated.

2) Lower minimum non-bank corporate rating from A- to BBB

Together with a shift from passive to active management to better manage idiosyncratic and sector-specific events

Both proposals have been put forward and may be approved