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This document explores an alternative strategic asset allocation framework for foreign exchange

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reserves, whose main purpose is to maximize the risk-adjusted returns maintaining the objectives of liquidity and safety of a foreign reserves' portfolio. The overall portfolio can be fragmented into two tranches. On the one hand the Safety Tranche is comprised of liquid, almost default-free and low volatile assets, where the financial goals of safety and liquidity are met. On the other hand, the Wealth Tranche aims to maximize the return with a broader range in the asset space and a longer investment horizon. It is found that through this framework both the historical and forward looking performance of an aggregate portfolio is improved, while maintaining the safety and liquidity needs of a traditional foreign exchange reserves portfolio.

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