



IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board — Sixty-Fifth Session
Rome, 2-3 December 1998

REPORT ON IFAD'S INVESTMENT PORTFOLIO
FOR THE FIRST THREE QUARTERS OF 1998

ADDENDUM

1. This paper provides information on the following topics:
 - (a) movements in the investment portfolio during the month of October 1998;
 - (b) the procedure for providing reports to the Executive Board on the investment portfolio when financial crises occur;
 - (c) the process for ensuring that IFAD's equities portfolios are managed in such a way that holdings consist of sound stocks with good potential for future earnings.

Movements in the Investment Portfolio in October 1998

2. A summary of movements in IFAD's investment portfolio in October 1998 is provided in Annex I. Capital losses in the global bonds portfolio were more than offset by gains in the equities portfolio, resulting in net investment income for the month of USD 11 707 000, slightly below the target for average monthly investment income of USD 12 500 000.

3. Details of the performance of IFAD's equities portfolios in October 1998 are provided in Annex II. With the exception of Japanese equities, all the portfolios performed well during the month, in part reflecting a return to equities investments following successive interest rate cuts in the United States.

Reporting during Financial Crises

4. At the Sixty-Fourth Session of the Executive Board in September 1998, it was agreed that in addition to the regular quarterly report on the investment portfolio each quarter, special reports would be prepared in times of financial crises.



5. It is proposed that such reports should be produced whenever total monthly investment income falls below minus 5%, or whenever monthly income of either the equities sector or the fixed income sector of the portfolio falls below minus 10%.

6. An analysis of the volatility of the investment portfolio covering the period in which IFAD has invested in both the fixed income and equities markets is provided in Annex III. The analysis indicates that monthly returns on equities were much more volatile than monthly returns on fixed income investments, but that to a large extent losses on equities were offset by gains on fixed income investments and vice versa during any particular month.

7. The analysis indicates that the production of a special report would have been triggered in August 1998, when the monthly return on equities fell to minus 17.57%. However, given the relatively small size of the equities portfolio (currently 13.8% of the total investment portfolio), even the large drop in equities in August 1998 resulted in an overall negative return for the month of only minus 0.33% because of relatively high returns in the fixed income sector.

Management of IFAD's Equities Portfolios

8. The selection of competent investment managers is of fundamental importance in the process of management. Selection criteria include not only a good track record, but also consideration of the manager's style. In all cases, IFAD has selected managers who are committed to a process of stock picking that involves a careful analysis of the financial strength of each company, its management and prospects in its industry sector.

9. IFAD receives monthly reports from its investment managers that provide the reason for the sale or purchase of individual stocks and for the maintenance of positions. In addition, IFAD's global custodian provides monthly analyses of the investment managers' performance relative to the benchmark index, indicating where value was added due to investment decisions.

10. In general, the investment strategy adopted during this period of financial uncertainty has been defensive. Most purchases and sales consequently reflect this strategy, but some turnover is also related to profit-taking, where capital gains are realized on stocks that are temporarily over-valued.

11. The reports are reviewed by IFAD's Treasury, and are discussed in detail on a monthly basis by telephone with the investment managers. Such discussions are supplemented by periodic visits to IFAD by the investment managers, and by IFAD's attendance at seminars organized by the investment managers.

12. Monthly reports on the investment managers' strategy and performance are prepared by IFAD Treasury and forwarded to members of the Investments Advisory Committee. The composition of the portfolios and the managers' performance are discussed by the Investments Advisory Committee at its regular quarterly meetings, where IFAD's financial advisors are also present and comment on the investment managers' performance.

**MOVEMENTS ON THE INVESTMENT PORTFOLIO
OCTOBER 1998**

USD '000 Equivalent

	Internally Managed Portfolio	Global Bonds Portfolio	Diversified Fixed Income Portfolio	Equities Portfolio	Overall Portfolio
Opening balance 30.09.98	48 820	1 666 133	202 385	273 586	2 190 924
Transfers between portfolios	120 000	(120 000)	-	-	-
Investment income					
Interest income	623	9 011	806	105	10 545
Dividend income	-	-	-	405	405
Realized capital gains/(losses)	-	18 831	604	(2 096)	17 339
Unrealized capital gains/(losses)	-	(32 207)	(1 150)	17 293	(16 064)
Subtotal: gross investment income	623	(4 365)	260	15 707	12 225
Securities lending income	77	-	-	-	77
Investment management and custody fees	(595)	-	-	-	(595)
Subtotal: net investment income	105	(4 365)	260	15 707	11 707
Net disbursements	(14 710)	-	-	-	(14 710)
Exchange gains/(losses)	78	18 791	4	18 500	37 373
Closing balance 31.10.98	154 293	1 560 559	202 649	307 793	2 225 294

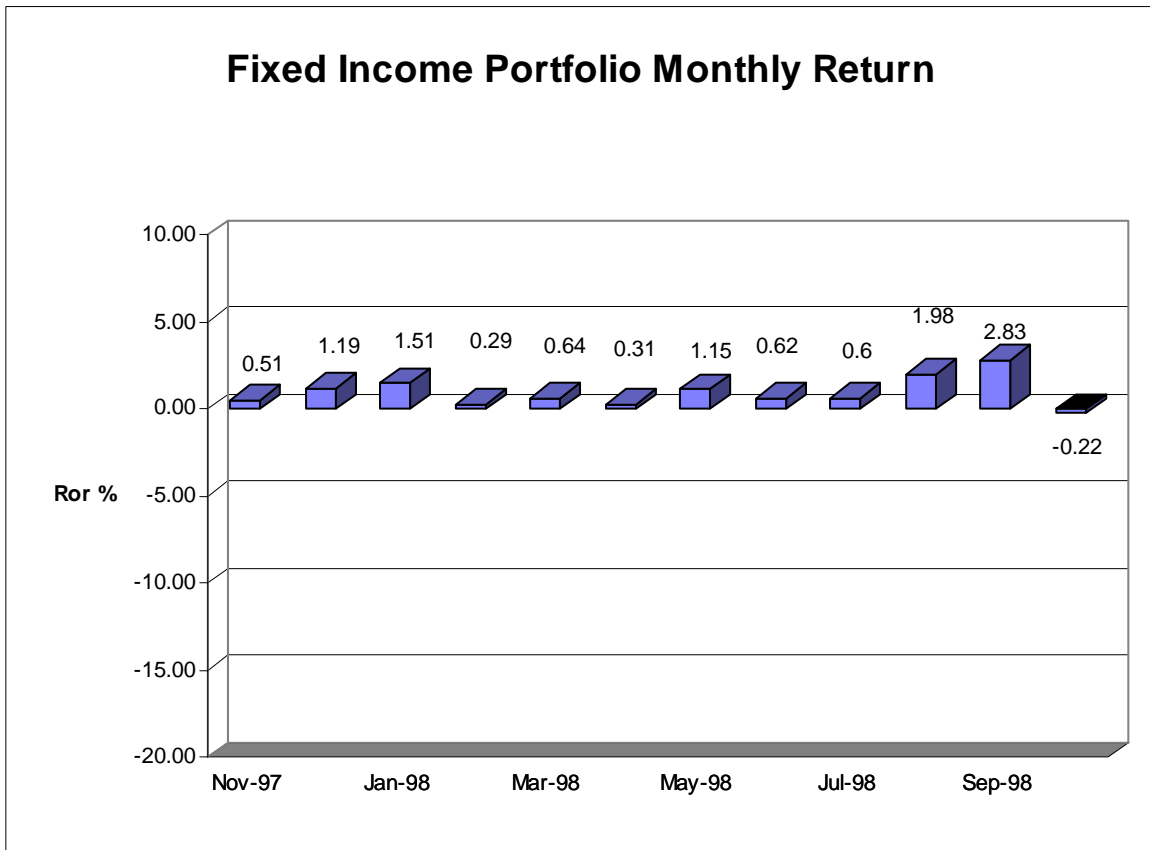
**MOVEMENTS IN INVESTMENTS IN EQUITIES PORTFOLIO
OCTOBER 1998**

USD '000 Equivalent

	Japanese Equities	Asian and Australasia n Equities (excluding Japan)	Emerging Markets Equities	North American Equities	Total
Opening balance 30.09.98	76 206	64 168	60 317	72 895	273 586
Interest income	-	40	65	-	105
Dividend income	-	244	70	91	405
Realized capital gains/(losses)	233	(1 846)	110	(593)	(2 096)
Unrealized capital gains/(losses)	(4 947)	7 060	8 820	6 360	17 293
Gross investment income	(4 714)	5 498	9 065	5 858	15 707
Exchange gains/(losses)	14 384	3 020	1 096	-	18 500
Closing balance 31.10.98	85 876	72 686	70 478	78 753	307 793



VOLATILITY OF THE INVESTMENT PORTFOLIO COVERING THE PERIOD IN WHICH IFAD HAS INVESTED IN THE FIXED INCOME AND EQUITIES MARKETS





ANNEX III

