



IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board — Seventieth Session

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REPORT ON IFAD'S INVESTMENT PORTFOLIO
FOR THE SECOND QUARTER OF 2000

I. INTRODUCTION

1. The following report on IFAD's investment portfolio covers the three-month period ending 30 June 2000 and includes comparative figures both for the year to date and for the year ending 31 December 1999.

II. HIGHLIGHTS

2. In the second quarter of 2000 global economic growth slowed down somewhat after the exceptionally strong start of the year, thereby assuring investors that the need for further interest rate hikes had been reduced.

3. Fixed-income investments continued to perform well, showing an average gross rate of return of 1.32% for the quarter and reflecting an outperformance relative to the benchmark of 4 basis points.

4. Equities were affected by a market correction, especially in technology stocks, although there was a rebound towards the end of the quarter. The average gross rate of return on equities for the period was negative at -3.53%. The return reflects an outperformance of 60 basis points against the benchmark, due to several equity mandates that showed a notable outperformance.

5. Aggregate net investment income in the second quarter amounted to a loss of USD 18 093 000 equivalent which, added to income of USD 39 148 000 equivalent for the first quarter of 2000, amounts to USD 21 055 000 equivalent for the first six months of 2000 (1999 – USD 194 469 000).

6. The average rate of return for the second quarter of 2000 was negative at -0.62%. With a rate of return of 1.55% for the first quarter of 2000, this results in a return for the first six months of 2000 of 0.91% (annualized 1.82%), compared with 8.78% in 1999. The aggregate portfolio outperformed the benchmark by 29 basis points in the second quarter which, taking into account the underperformance of 38 basis points in the first quarter, resulted in an underperformance of 9 basis points for the first six months of 2000 (1999 — outperformance 66 basis points).



7. The amount of the investment portfolio decreased from USD 2 313 959 000 equivalent as of 31 March 2000 to USD 2 243 073 000 equivalent as of 30 June 2000 due to the negative investment income, negative exchange movements resulting from the appreciation of the United States Dollar and other net outflows.

8. The diversification programme proceeded with the funding of a North American small capitalization equities mandate in the amount of USD 10 million and the selection of two external investment managers for a European small and medium capitalization equities mandate amounting to USD 60 million equivalent.

III. ECONOMIC BACKGROUND

Gross Domestic Product

9. Annex I shows percentage changes in real gross domestic product for the countries whose currencies are included in the Special Drawing Rights (SDR) basket, namely, the Euro zone, Japan, the United Kingdom and the United States.

10. In the United States there were signs of an economic slowdown towards the end of the second quarter and of slowing consumer spending, which were offset to some extent by inventory building and increased government spending. The slowdown appeared to reflect higher interest rates and oil prices, as well as weaker equity prices. The extent of the slowdown is still uncertain and growth forecasts for 2000 are largely unchanged at around 5.0%. Going forward, growth is forecast to slow to 3.0% in 2001.

11. In Japan, private investments have replaced public investments as the main driver of economic growth. The July 2000 Tankan Report showed that Japanese companies are becoming more positive about the economy and that consumer spending is showing some signs of rebounding. Growth forecasts lie within a fairly wide range but generally show a gradual improvement, with 2001 growth exceeding that forecast for 2000.

12. In the Euro countries, economic growth is estimated to have reached an annualised rate of 4% in the first half of the year. Both consumer and business confidence reached ten-year highs in the second quarter. Supported by the weak currency and increasing broad-based domestic demand, economic growth is projected to remain solid (the forecast for 2000-2001 is 3.9 %).

13. In the United Kingdom, growth slowed in the first quarter 2000 but a rebound in the second quarter confirmed that the economy is still growing close to trend. High consumer confidence and the Government's plans to increase public-sector spending in the next three years are supporting factors for further growth (the forecast for 2000-2001 is 3.0%).

14. Generally, global growth moderated in the second quarter after an exceptionally strong start in the first quarter of 2000. There were some shifts in relative growth trends; the Americas and Emerging Asia led the second quarter's slowdown, while Europe and Japan seemed to improve. The global growth rate is forecast to settle at a 3.5%-4% range during the rest of the year and in 2001.



Labour Market Development

15. Annex II shows unemployment rates as a percentage of the labour force of countries whose currencies are included in the SDR valuation basket.

16. The greatest improvement in labour markets is currently taking place in the Euro zone and the trend is forecast to continue. In the United States and the United Kingdom, unemployment rates are at historic lows and are projected to remain largely unchanged in 2000 and 2001. In Japan, the worst seems to be over and the labour market is responding to the increase in corporate activity.

Inflation

17. Annex III shows the percentage changes in consumer prices for countries whose currencies are included in the SDR valuation basket.

18. Global inflation has been rising over recent months due to the rise in oil prices. Global core inflation (excluding food and energy prices) is expected to increase as recent higher oil prices are digested. This trend has been visible in the United States as well as in the Euro zone where domestic price pressures are smaller, but the combination of currency weakness and high oil prices is expected to have a continued impact. Around one fifth of the Euro area is already experiencing a core inflation above the European Central Bank's (ECB) target ceiling of 2%. In the United Kingdom, the weakening of the Pound Sterling in the second quarter, together with the tight labour market and continuing growth, may reinforce inflationary pressures.

19. In Japan, prices have been falling again recently. Current deflationary pressures are mainly attributed to a more open and competitive economy and are expected to ease during the year.

Monetary Policies

20. Annex IV shows the evolution of central bank and government-controlled interest rates for the four currencies included in the SDR valuation basket.

21. The United States raised its overnight bank-lending rate by 50 basis points to 6.50% in May 2000, as a result of economic data showing strong economic growth and the threat of rising inflation.

22. The Bank of Japan left the official discount rate unchanged at 0.5%, but has signalled that the end to the current near-zero interest rate policy is at hand.

23. The ECB has raised its official overnight rate twice this year, by 25 basis points in April and 50 basis points in June, and has given some signals that rates may need to rise further to keep inflation in check as economic growth accelerates. It also switched to a variable refinancing rate at the end of June 2000, meaning that banks offering to pay higher rates are awarded ECB loans. The change could further raise the cost of credit in the Euro zone.

24. The Bank of England kept its bank rate unchanged at 6.0% during the second quarter of 2000.

Exchange Rates

25. Annex V illustrates the end-of-month exchange rates of the United States Dollar against the other three currencies included in the SDR evaluation basket.



26. Following some weakening, the Japanese Yen and the Euro have reverted to their level at the end of the first quarter of 2000 against the United States Dollar. The Pound Sterling weakened by about 5% against the United States Dollar, reflecting the interest-rate differential of 50 basis points in short-term interest rates after the Federal Reserve's tightening in May 2000.

Fiscal Policy

27. Annex VI illustrates the budget deficits as a percentage of GDP for countries whose currencies are included in the SDR valuation basket.

28. In the United States, the budget surplus is forecast to increase somewhat in 2000 and to remain around the same level in 2001. The Euro zone is also projected to improve, showing a smaller deficit in 2000 and an overall balanced budget in 2001. The United Kingdom is forecast to show a budget surplus in both 2000 and 2001. After significant increases in budget deficit in 1999, Japan is forecast to show decreasing deficits in 2000 and 2001.

IV. FINANCIAL MARKETS

29. Annex VII shows the evolution of short and long-term interest rates for the four currencies included in the SDR valuation basket.

30. Long-term interest rates in the United States fell notably in June 2000, following weaker-than-expected employment data and lowered second quarter growth expectations. A Treasury buyback programme and decreased new issuance helped rates to fall. In Japan long-term rates also fell, especially at the beginning of the quarter due to continued inflow of savings into government bonds and prevailing equity market weakness. In the Euro zone, long-term rates generally fell but with notable differences between Euro Zone countries due to expected revenues from privatizations and telecommunications license sales in some countries. In the United Kingdom, long-term interest rates fell notably during the whole quarter, benefiting from the perception that the United Kingdom is further advanced in the business cycle than major trading partners are.

31. Short-term interest rates generally rose in the second quarter, especially in the Euro zone and in the United States, due to monetary tightening and in anticipation of future tightening.

32. Annex VIII shows bond market returns for countries included in the J.P. Morgan Global Government Bond Traded Index. The benchmark index includes both coupon income and capital gains and losses, in line with market practice. Apart from Denmark, the individual bond markets performed positively, with high returns for Australia, Canada, Sweden, the United Kingdom and the United States.

33. Annex IX shows the performance of the J.P. Morgan Global Government Bond Traded Index (reweighted for currency matching purposes) in local currency terms compared with the Salomon Brothers Broad Investment Grade (BIG) Index. The latter includes United States Treasury bonds and corporate bonds denominated in United States Dollars, and is used as a benchmark for IFAD's diversified fixed-interest portfolio. Diversified fixed-interest bonds underperformed government bonds during most of the quarter due to widening of credit spreads because of concerns about shrinking supplies of government bonds, but there was a recovery towards the end of the period.

34. Annex X shows the development of the six equity markets in which IFAD has invested: Japan, Asia and Australasia (excluding Japan), emerging markets, North America, Europe and global equities. Global equity markets generally performed negatively in the second quarter of 2000, despite a rebound towards the end of the quarter. The period showed strong market movements, especially in technology stocks, which corrected globally after outperforming significantly in previous quarters.

However, sectors like health care and consumer staples performed strongly, benefiting from the focus of investors on more value-oriented stocks. On a geographical basis, Japanese, Australasian and emerging markets in particular experienced strong profit taking. European equity markets showed the best performance due to more limited technology exposure.

V. INVESTMENT INCOME AND STRATEGY

Overall Portfolio Performance

35. Net investment income for the second quarter of 2000 showed a loss of USD 18 093 000 equivalent which, added to income of USD 39 148 000 equivalent for the first quarter of 2000, amounted to USD 21 055 000 equivalent for the first six months of 2000 (1999 – USD 194 469 000). In line with market practice, capital gains and losses include both realized and unrealized gains and losses. All amounts are included on an accrual basis. Table 1 summarizes net investment income earned during the period under review, while further details of income are provided in Tables 4 and 8 for fixed-interest and equities investments, respectively.

Table 1: Investment Income
(USD '000 equivalent)

	2nd Quarter 2000 Fixed- Interest Portfolio	2nd Quarter 2000 Equity Portfolio	2nd Quarter 2000 Overall Portfolio	1st Quarter 2000 Overall Portfolio	Year to Date 2000	1 999
Interest from fixed-interest investments and bank accounts	18 241	402	18 643	16 736	35 379	90 253
Dividend income from equities	-	3 863	3 863	2 865	6 728	8 684
Realized capital gains	(2 387)	15 171	12 784	(6 835)	5 949	3 861
Unrealized capital gains	1 948	(52 407)	(50 459)	29 135	(21 324)	101 272
Subtotal: Gross investment income	17 802	(32 971)	(15 169)	41 901	26 732	204 070
Securities lending income	40	20	60	68	128	539
Investment manager fees	(720)	(1 292)	(2 012)	(1 962)	(3 974)	(7 192)
Custody fees	(196)	(493)	(689)	(600)	(1 289)	(1 870)
Financial advisory and other investment management fees	(104)	(76)	(180)	(161)	(341)	(508)
Taxes	3	(95)	(92)	(57)	(149)	(286)
Other investment expenses	(6)	(5)	(11)	(41)	(52)	(284)
Net investment income	16 819	(34 912)	(18 093)	39 148	21 055	194 469

36. Movements affecting the overall portfolio during the second quarter of 2000 are shown in Table 2. During the same quarter, USD 10 million equivalent was transferred from the fixed-interest portfolio to the equities portfolio. Further details of movements in cash and investments are provided in Tables 5 and 9 for fixed-interest and equities investments, respectively.

**Table 2: Movements in Cash and Investments – Second Quarter 2000**
(USD '000 equivalent)

	Fixed-Interest Portfolio	Equities Portfolio	Overall Portfolio
Opening balance (31 March 2000)	1 378 775	935 184	2 313 959
Transfers between portfolios due to allocation	(10 000)	10 000	-
Transfers between portfolios due to expenses	(445)	445	-
Other net flows	(19 110)	-	(19 110)
Gross investment income	17 802	(32 971)	(15 169)
Securities lending income	40	20	60
Fees, charges and taxes	(1 023)	(1 961)	(2 984)
Movements on exchange	(20 279)	(13 404)	(33 683)
Closing balance (30 June 2000)	1 345 760	897 313	2 243 073

37. After taking account of investment expenses, including fees for custody and investment management, the overall rate of return of the portfolio for the second quarter of 2000 was negative at - 0.62%. With a rate of return of 1.55 % for the first quarter of 2000, this results in a rate of return for the first six months of 2000 of 0.91% (annualized 1.82%), compared with 8.78% for 1999. In the second quarter of the year, the fixed-interest portfolio performed positively while the equity sector was affected by a market correction.

38. The performance of the various mandates of the investment portfolio is measured against preassigned independent benchmarks indicating the return that may be expected through passive management of defined sectors of the market. Table 3 compares the return of each major section of the portfolio with the appropriate benchmark rate of return. Table 3 shows an overall outperformance of 29 basis points for the second quarter of 2000 compared with an overall underperformance of 38 basis points for the first quarter of the year, resulting in an overall underperformance of 9 basis points for the first six months of 2000 (cf. 1999 overall outperformance 66 basis points). This information is presented graphically in Annex XI.

Table 3: Overall Performance Compared with Benchmarks – Second Quarter 2000
(USD '000 equivalent)

Portfolio	Rate of Return %		Out/(Under) Performance
	Portfolio	Benchmark	
Total fixed-interest	1.32	1.28	0.04
Total equities	(3.53)	(4.13)	0.60
Overall portfolio gross rate of return	(0.49)	(0.78)	0.29
Less expenses	(0.13)	(0.13)	0.00
Overall portfolio net rate of return	(0.62)	(0.91)	0.29
Year to date 2000 net rate of return	0.91	1.00	(0.09)
Cf. 1999 overall portfolio net rate of return	8.78	8.12	0.66

Fixed-Interest Portfolio

39. The fixed-interest portfolio consists of three sub-portfolios: the internally managed portfolio, the externally managed global fixed-interest and the externally managed diversified fixed-interest portfolios.

40. The aggregate net income attributable to the fixed-interest portfolio for the second quarter of 2000 amounted to USD 16 819 000 equivalent, as shown in Table 4.

Table 4: Investment Income on the Fixed-Interest Portfolio– Second Quarter 2000
(USD '000 equivalent)

	Internally Managed Portfolio	Global Fixed- Interest Portfolio	Diversified Fixed- Interest Portfolio	Total Fixed- Interest Portfolio
Interest from fixed-interest investments and bank accounts	1 331	13 250	3 660	18 241
Dividend income from equities	-	-	-	-
Realized capital gains	-	(2 629)	242	(2 387)
Unrealized capital gains	-	3 441	(1 493)	1 948
Subtotal: Gross investment income	1 331	14 062	2 409	17 802
Securities lending income	-	40	-	40
Investment manager fees	-	(510)	(210)	(720)
Custody fees	(16)	(121)	(59)	(196)
Financial advisory and other investment management fees	-	(86)	(18)	(104)
Taxes	-	-	3	3
Other investment expenses	-	5	(11)	(6)
Net investment income	1 315	13 390	2 114	16 819

41. Movements affecting the total fixed-interest portfolio during the second quarter of 2000 are shown in Table 5.

Table 5: Movements in the Fixed-Interest Portfolio – Second Quarter 2000
(USD '000 equivalent)

	Internally Managed Portfolio	Global Fixed- Interest Portfolio	Diversified Fixed- Interest Portfolio	Total Fixed- Interest Portfolio
Opening balance (31 March 2000)	111 242	1 051 627	215 906	1 378 775
Transfers between portfolios due to allocation	6 282	(16 282)	-	(10 000)
Transfers between portfolios due to expenses	(1 509)	677	387	(445)
Other net flows	(19 110)	-	-	(19 110)
Gross investment income	1 331	14 062	2 409	17 802
Securities lending income	-	40	-	40
Fees, charges and taxes	(16)	(712)	(295)	(1 023)
Movements on exchange	(1 764)	(18 668)	153	(20 279)
Closing balance (30 June 2000)	96 456	1 030 744	218 560	1 345 760

42. The performance of the fixed-interest portfolio by type of mandate is presented in Table 6. This information is presented graphically in Annex XII.

Table 6: Fixed-Interest Performance Compared with Benchmarks – Second Quarter 2000
(USD '000 equivalent)

Portfolio	Rate of Return %		Out/(Under) Performance
	Portfolio	Benchmark	
Internally-managed portfolio	1.35	1.16	0.19
Global fixed-interest	1.34	1.21	0.13
Diversified fixed-interest	1.11	1.70	(0.59)
Total fixed-interest	1.32	1.28	0.04
Year to date 2000 total fixed-interest	2.96	3.23	(0.27)
Cf. 1999 total fixed-interest	(1.85)	(0.81)	(1.04)

43. As indicated in Table 6, the overall return for the fixed-interest portfolio was 1.32% for the second quarter of 2000 compared with the aggregate benchmark return of 1.28%, resulting in an outperformance of 4 basis points for the total fixed-interest portfolio.

44. In the second quarter of 2000 all fixed-interest sectors outperformed except the diversified fixed-interest portfolio, which underperformed due to an underweight position in United States government bonds that performed well in the second quarter. The same portfolio was overweighted in non-United States and corporate bonds, where spreads have been widening relative to United States government bonds.

Table 7: Duration of the Global Fixed-Interest and Diversified Fixed-Interest Portfolios
(USD '000 equivalent)

	30 June 2000	31 March 2000
Global fixed-interest portfolio	5.82	5.28
Global fixed-interest benchmark	5.99	5.97
Diversified fixed-interest portfolio	5.20	5.36
Diversified fixed-interest benchmark	4.97	5.18

Equities Portfolio

45. The equities portfolio comprised seven externally managed sub-portfolios at the end of the second quarter of 2000. These were Japanese, Asian and Australasian, emerging markets, North American and European equities, a currency overlay mandate and global equities.

46. The aggregate net income attributable to the equities portfolio for the second quarter of 2000 amounted to a loss of USD 34 912 000 equivalent, as shown in Table 8.

Table 8: Investment Income on the Equities Portfolio – Second Quarter 2000
(USD '000 equivalent)

	Japanese Equities	Asian and Australasian Equities	Emerging Markets Equities	Currency Overlay	North American Equities	European Equities	Global Equities	Total
Interest from fixed-interest investments and bank accounts	-	54	184	150	2	7	5	402
Dividend income from equities	83	686	783	-	659	1 135	517	3 863
Realized capital gains	8 451	(220)	4 624	-	263	4 336	(2 283)	15 171
Unrealized capital gains	(15 621)	(4 191)	(8 474)	-	(10 643)	(9 207)	(4 271)	(52 407)
Subtotal: Gross investment income	(7 087)	(3 671)	(2 883)	150	(9 719)	(3 729)	(6 032)	(32 971)
Securities lending income	13	2	-	-	4	1	-	20
Investment manager fees	(189)	(164)	(309)	-	(322)	(152)	(156)	(1 292)
Custody fees	(16)	(56)	(250)	(4)	(66)	(34)	(67)	(493)
Financial advisory and other investment management fees	(14)	(10)	(9)	(1)	(19)	(12)	(11)	(76)
Taxes	-	(18)	(39)	-	(6)	(24)	(8)	(95)
Other investment expenses	-	(1)	(2)	-	1	(1)	(2)	(5)
Net investment income	(7 293)	(3 918)	(3 492)	145	(10 127)	(3 951)	(6 276)	(34 912)

47. Movements affecting the equities portfolio during the second quarter of 2000 are shown in Table 9. A total of USD 10 million equivalent was transferred from the fixed-interest portfolio in order to fund a North American Small Capitalization equities mandate.

Table 9: Movements in the Equities Portfolio – Second Quarter 2000
(USD '000 equivalent)

	Japanese Equities	Asian and Australasian Equities	Emerging Markets Equities	Currency Overlay	North American Equities	European Equities	Global Equities	Total
Opening balance (31 March 2000)	177 227	116 363	111 327	10 087	235 717	149 766	134 697	935 184
Transfers between portfolios due to allocation	-	-	-	-	10 000	-	-	10 000
Transfers between portfolios due to expenses	206	228	(828)	5	403	197	234	445
Gross investment income	(7 087)	(3 671)	(2 883)	150	(9 719)	(3 729)	(6 032)	(32 971)
Securities lending income	13	2	-	-	4	1	-	20
Fees, charges and taxes	(219)	(249)	(609)	(5)	(412)	(223)	(244)	(1 961)
Movements on exchange	(3 957)	(1 164)	(5 263)	(332)	-	(1 315)	(1 373)	(13 404)
Closing balance (30 June 2000)	166 183	111 509	101 744	9 905	235 993	144 697	127 282	897 313

48. The performance of the equities portfolio by type of mandate is presented in Table 10. This information is presented graphically in Annex XIII.

Table 10: Equities Performance Compared with Benchmark – Second Quarter 2000
(USD '000 equivalent)

Portfolio	Rate of Return %		Out/(Under) Performance
	Portfolio	Benchmark	
Japanese equities	(4.00)	(6.51)	2.51
Asian and Australasian equities (excluding Japan)	(3.15)	(6.23)	3.08
Emerging Markets equities	(2.59)	(6.56)	3.97
North American equities	(4.22)	(2.69)	(1.53)
European equities	(2.49)	(1.86)	(0.63)
Global equities (first tranche funded 2/2000)	(4.48)	(2.78)	(1.70)
Total equities	(3.53)	(4.13)	0.60
Year to date 2000 total equities	(1.84)	(1.94)	0.10
Cf. total equities 1999	49.71	44.07	5.64

49. As indicated in Table 10, the overall return on the equity portfolio for the second quarter of 2000 was negative at -3.53%. This is compared to the aggregate benchmark return of -4.13%, resulting in an outperformance of 60 basis points for the total equities portfolio.

50. With the exception of the North American, global and European equities, all equity mandates showed a notable outperformance against their respective benchmarks. The North American equities portfolio was affected negatively, mainly by overweighting information technology, while being somewhat underweight in the health care sector, which performed well. The global equities portfolio underperformed, mainly as a result of negative stock selection in Japan and the United Kingdom. The small underperformance in European equities is mainly attributable to negative stock selection in the United Kingdom and Finland.

VI. COMPOSITION OF THE PORTFOLIO

General

51. As of 30 June 2000, the Fund's investment portfolio amounted to USD 2 243 073 000 equivalent (31 March 2000 – USD 2 313 959 000 equivalent), excluding amounts subject to restriction provided by donors for participation in specific IFAD projects and activities. During the second quarter of 2000, prior to taking account of movements on exchange rates, the amount of the portfolio decreased by USD 37 203 000 equivalent (the first quarter of 2000 showed an increase of USD 15 869 000 equivalent), as indicated in Table 11.

Table 11: Analysis of Cash Flows in the Overall Portfolio
(USD '000 equivalent)

	2 nd Quarter 2000	1 st Quarter 2000	Year to Date 2000	12 Months to 31 December 1999
Opening balance	2 313 959	2 331 030	2 331 030	2 268 295
Net investment income	(18 093)	39 148	21 055	194 469
Other net flows	(19 110)	(23 279)	(42 389)	(77 810)
Increase, prior to exchange movements	(37 203)	15 869	(21 334)	116 659
Exchange movements	(33 683)	(32 940)	(66 623)	(53 924)
Closing balance	2 243 073	2 313 959	2 243 073	2 331 030

Composition of the Portfolio by Instrument

52. IFAD's portfolio is divided into fixed-interest and equities portfolios. Table 12 provides an analysis of the instruments found in each of the main sections of the investment portfolio.

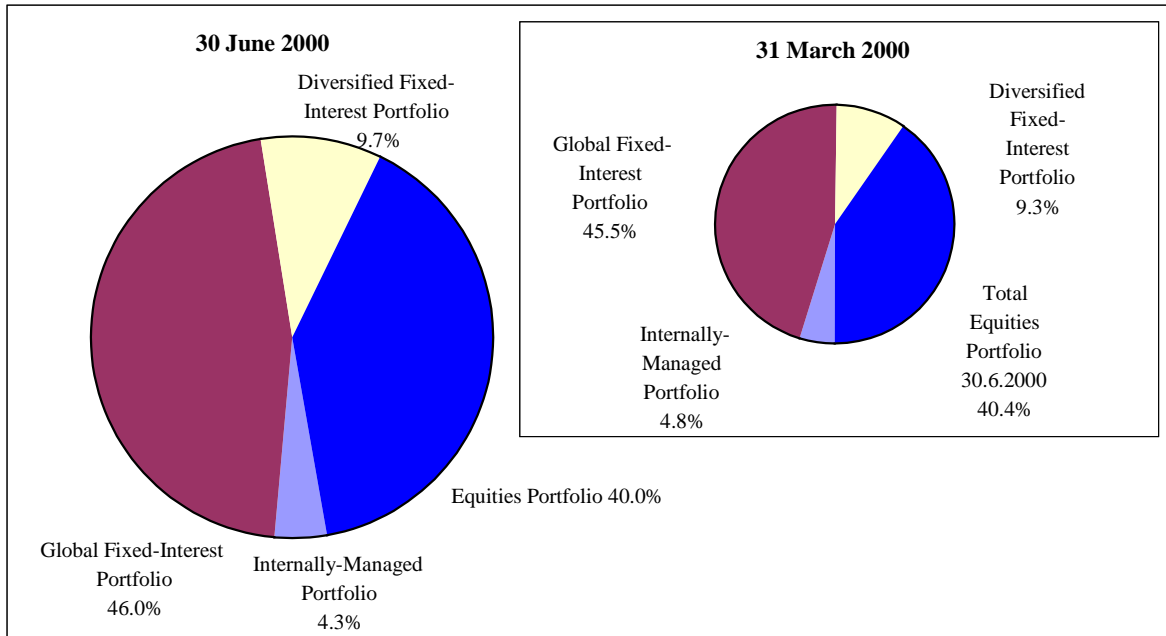
Table 12: Analysis of the Portfolio by Instruments as at 30 June 2000
(USD '000 equivalent)

Instruments	Total Fixed- Interest Portfolio 30.6.2000	Total Equities Portfolio 30.6.2000	Overall Portfolio 30.6.2000	Overall Portfolio 31.3.2000	Overall Portfolio 31.12.1999
Cash	47 820	13 103	60 923	101 967	71 889
Time deposits	214 400	26 904	241 304	266 794	171 868
Global government bonds	934 550	-	934 550	916 750	1 171 821
Emerging market bonds	38 618	-	38 618	39 547	35 182
Mortgage-backed securities	70 811	-	70 811	46 405	60 760
Asset-backed securities	3 405	-	3 405	3 000	2 999
Corporate bonds	71 010	-	71 010	65 961	70 041
Equities	-	857 171	857 171	914 429	770 369
Futures	139	-	139	617	48
Options	7	-	7	(127)	(30)
Open trades	(56 833)	(692)	(57 525)	(64 500)	(52 838)
Accrued interest income	21 013	5	21 018	20 355	27 437
Dividends receivable	-	822	822	1 941	577
Non-convertible currencies	820	-	820	820	907
Total	1 345 760	897 313	2 243 073	2 313 959	2 331 030
Percentage	60.0%	40.0%	100.0%	100.0%	100.0%



53. An analysis of the portfolio by type of mandate appears in Figure 1.

Figure 1: Analysis of the Portfolio by Type of Mandate



VII. DIVERSIFICATION OF THE INVESTMENT PORTFOLIO

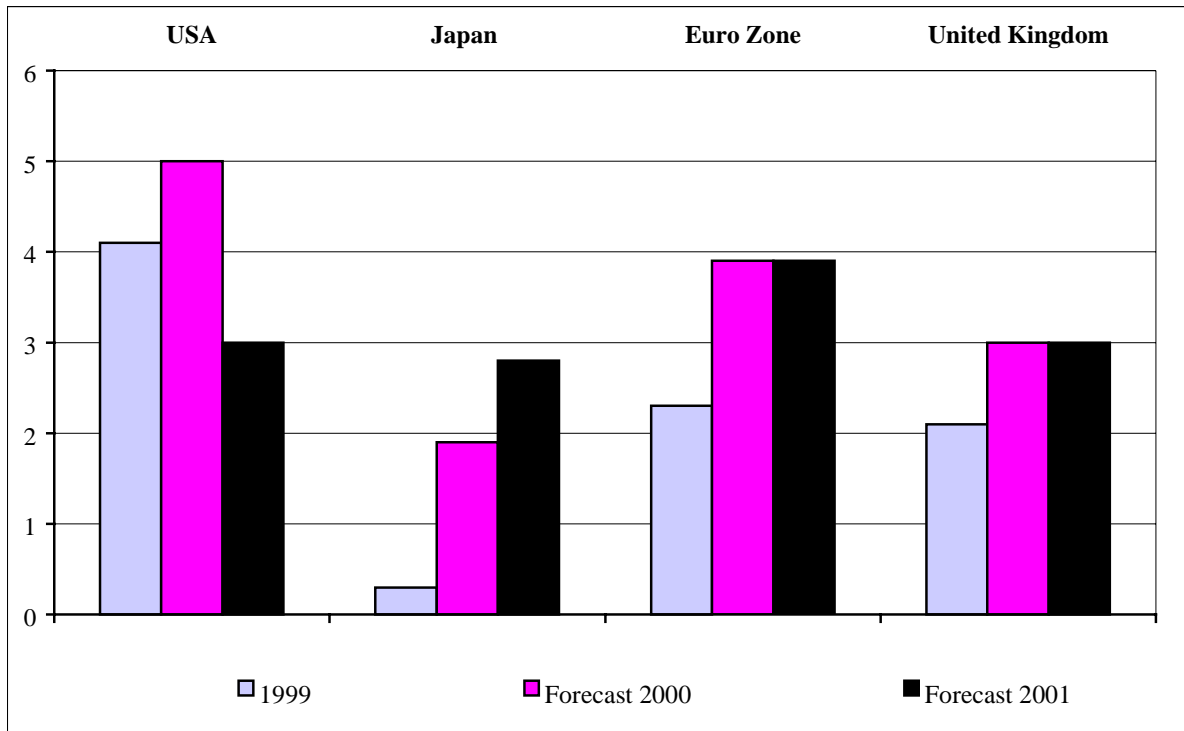
54. In May 2000, a North American small capitalization equities mandate was funded in the amount of USD 10 million.

55. In the same month, the process for selecting external investment managers for a European small and medium capitalization equities mandate amounting to USD 60 million equivalent was completed, resulting in the appointment of two external investment managers. Negotiation of the requisite Investment Management Service Agreements was finalized during the second quarter.

56. As of the end of the second quarter of 2000, all new mandates under the diversification programme had been assigned to managers, but an amount of approximately USD 310 million remained unfunded under mandates for global equities and North American and European small capitalization equities.



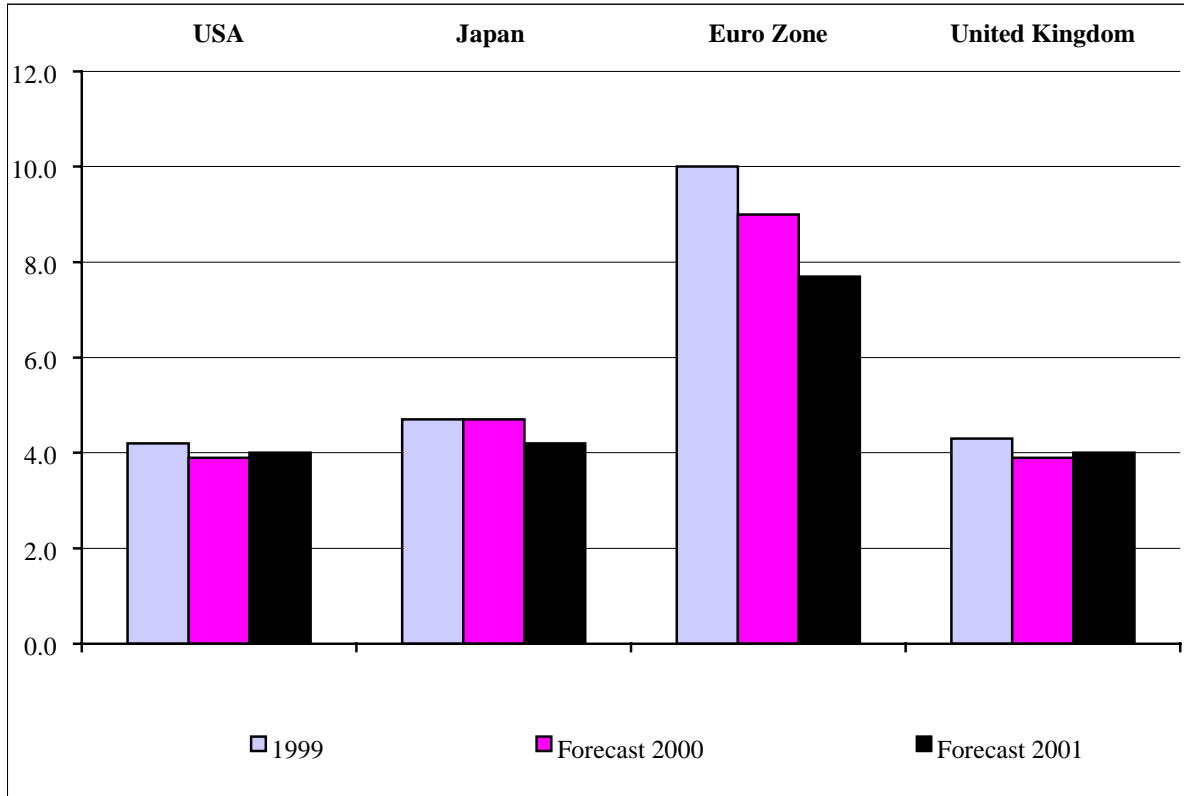
PERCENTAGE CHANGE IN REAL GDP



Source: JP Morgan



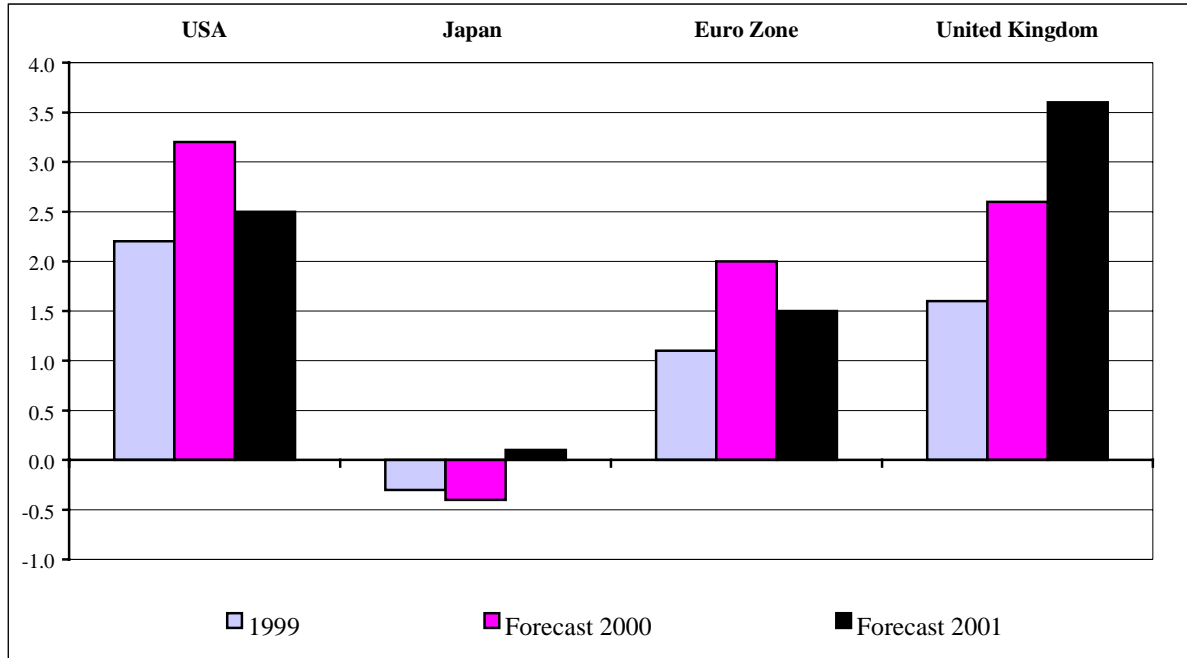
UNEMPLOYMENT RATE – PERCENTAGE OF LABOUR FORCE



Source: JP Morgan



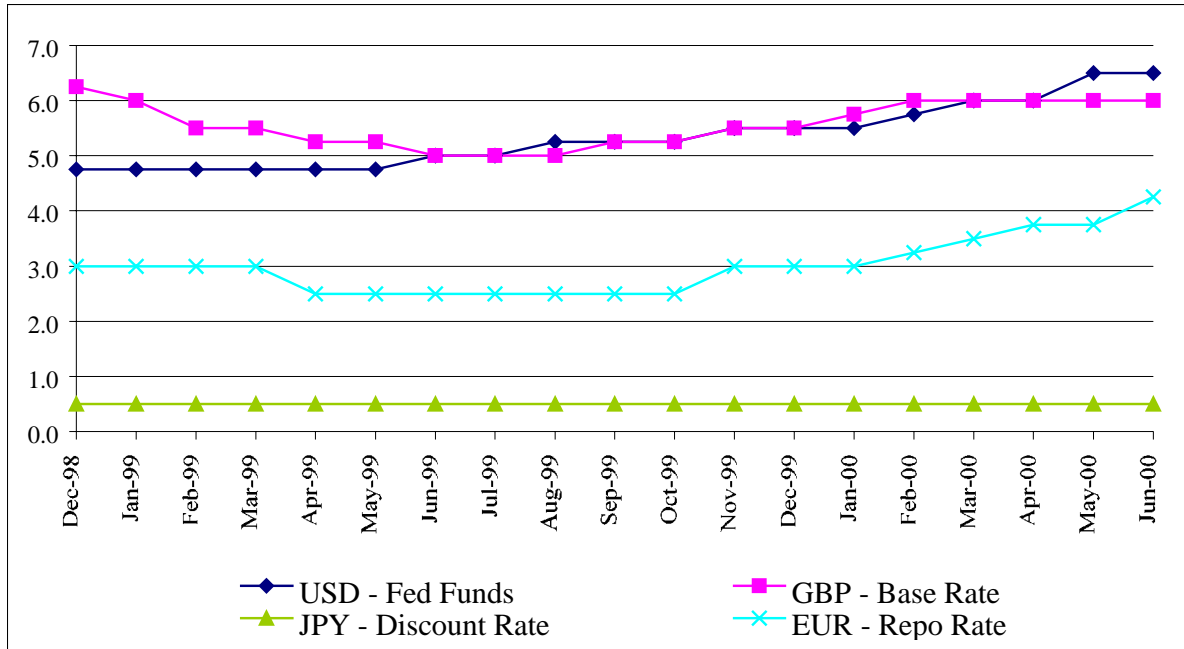
CONSUMER PRICE INDEX – ANNUALIZED RATES



Source: JP Morgan

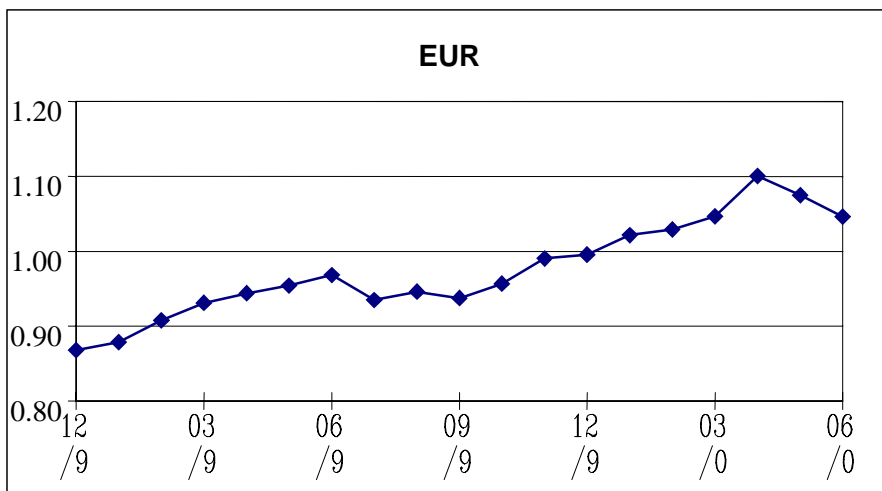
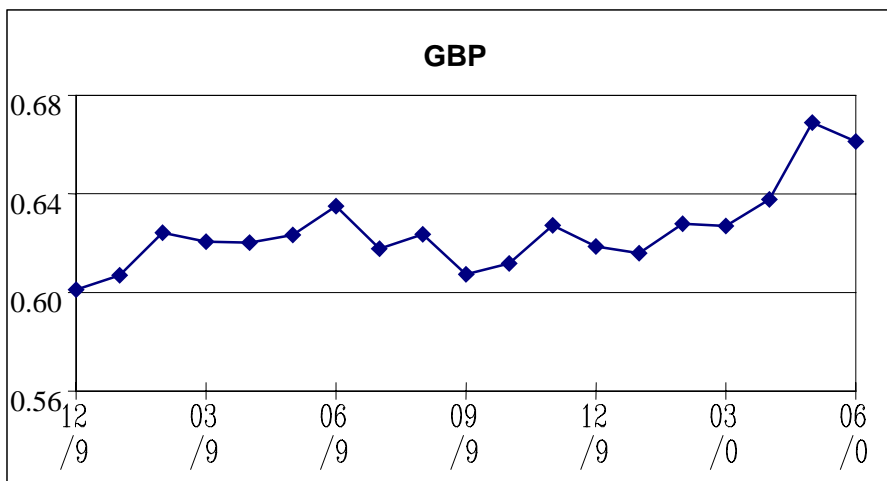
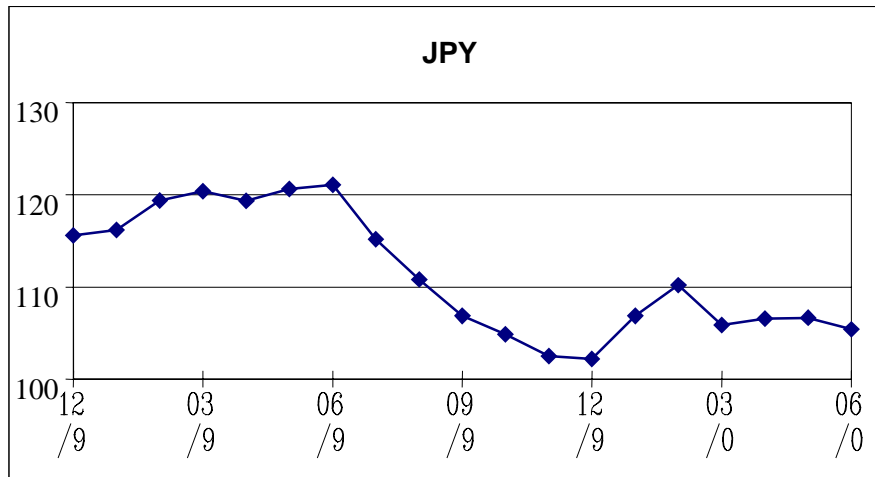


CENTRAL BANK AND GOVERNMENT-CONTROLLED INTEREST RATES





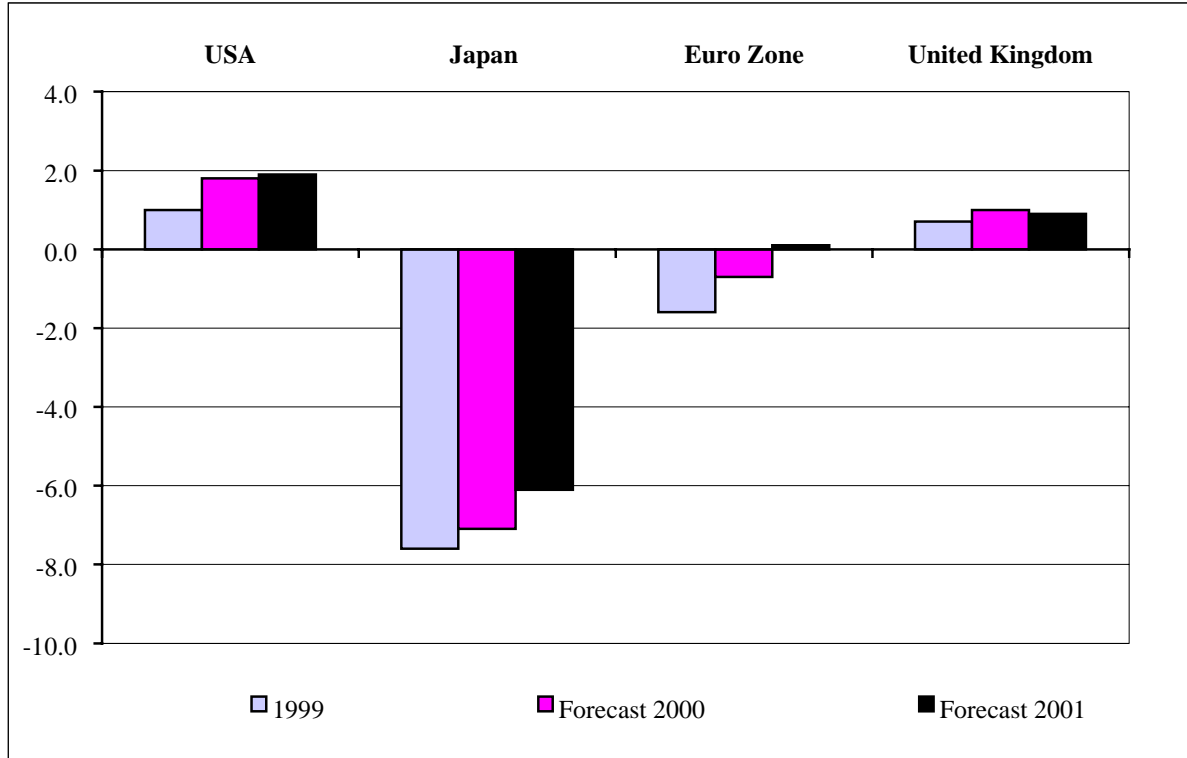
VALUE OF THE UNITED STATES DOLLAR AT IMF MONTH-END EXCHANGE RATES



Source:IMF



BUDGET DEFICITS – AS PERCENTAGE OF GDP

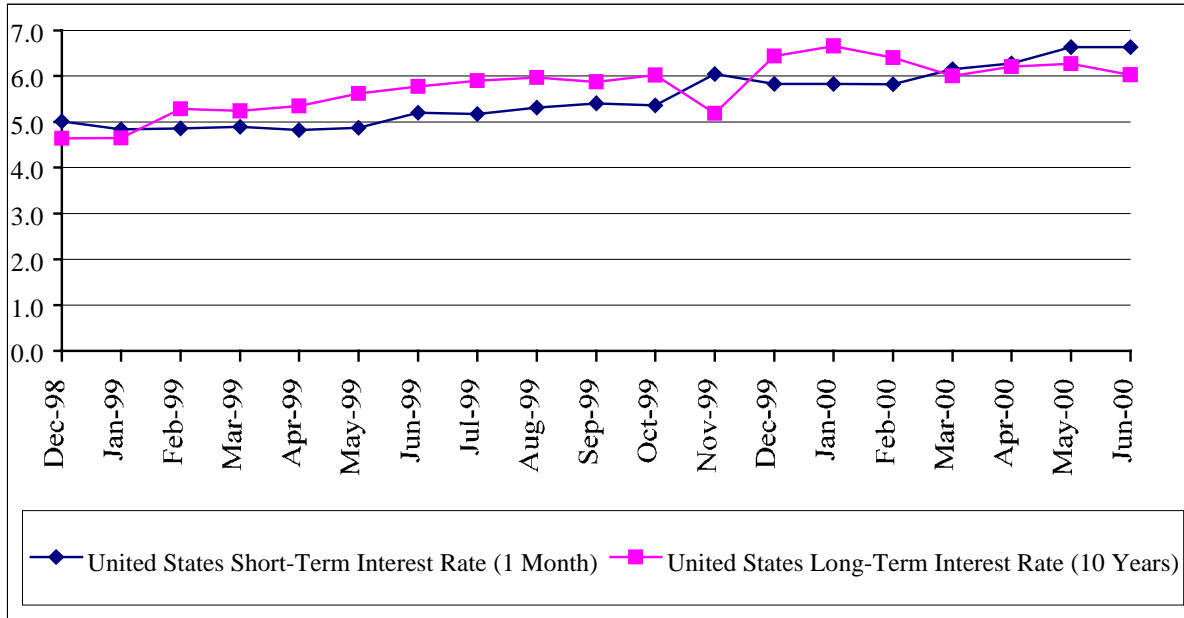


Source: JP Morgan

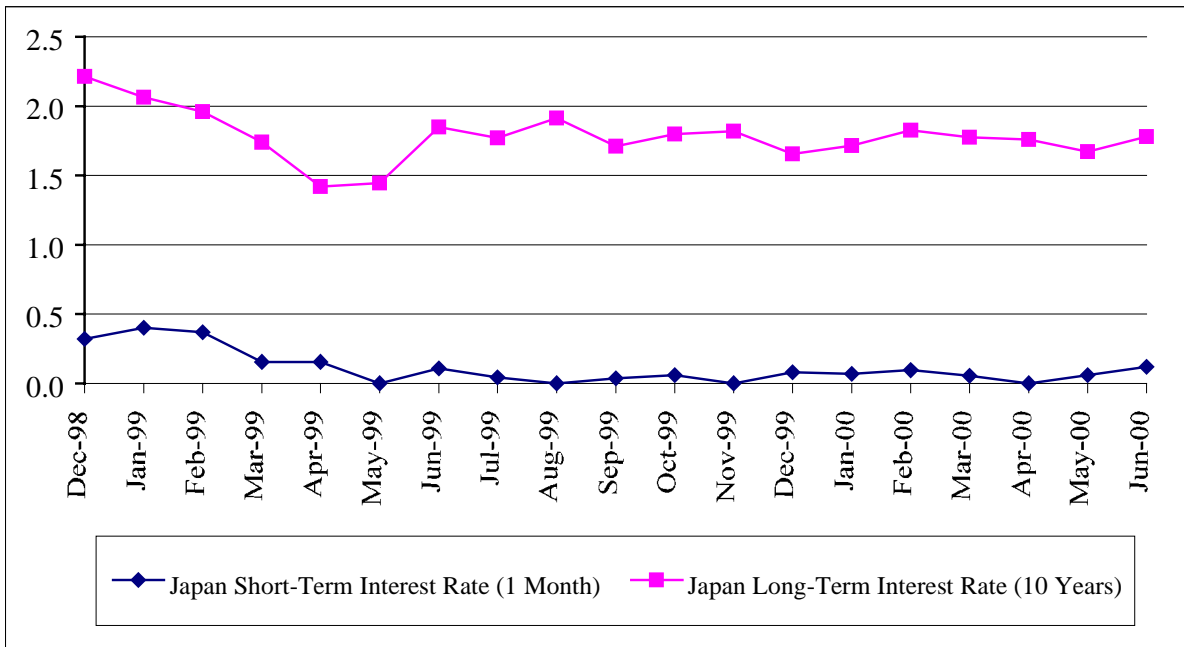


SHORT AND LONG-TERM INTEREST RATES

United States



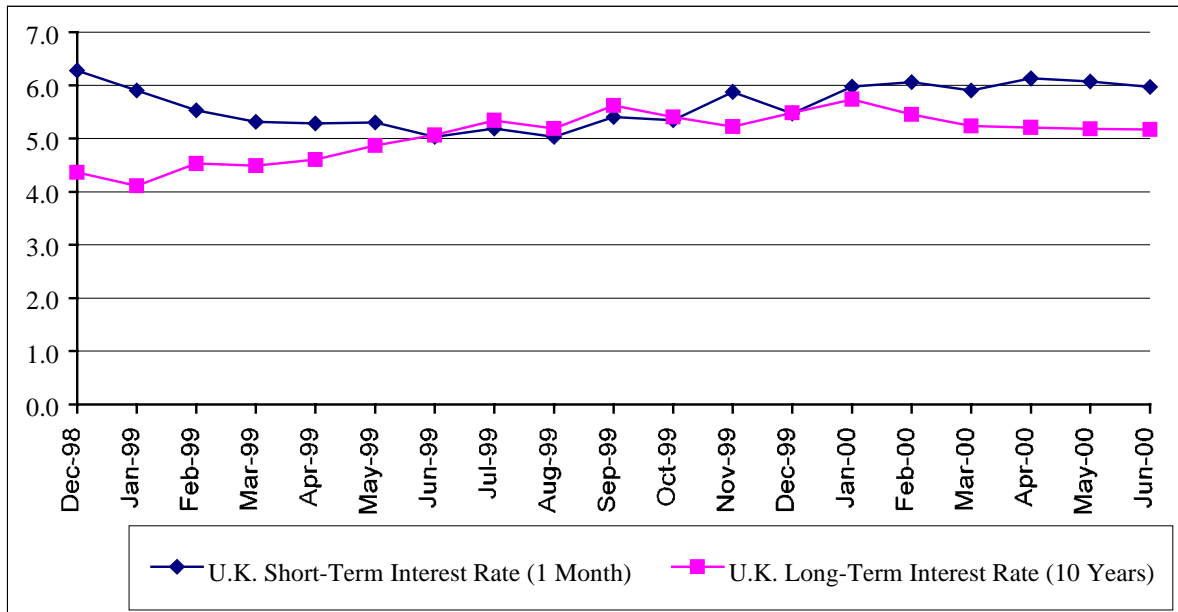
Japan



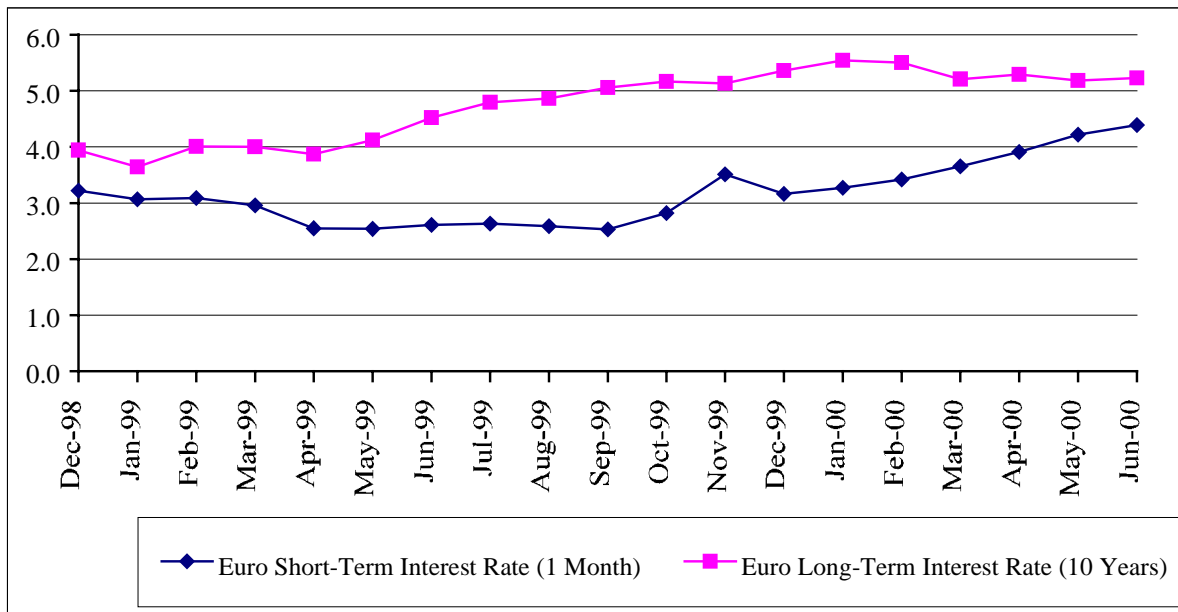
Source: Bloomberg



United Kingdom



Euro Zone



Source: Bloomberg

**GOVERNMENT BOND RETURNS PER COUNTRY INCLUDED IN THE JP MORGAN
GOVERNMENT BOND TRADED INDEX**

(Percentage in local currency terms)

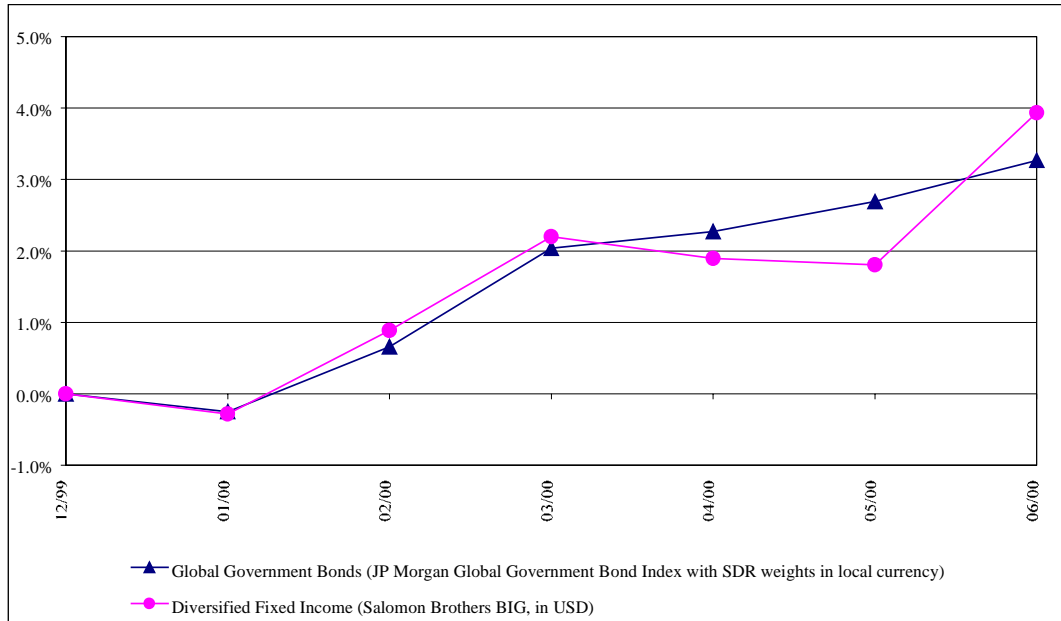
Country	Second Quarter 2000	First Quarter 2000	Year to Date 2000	1999
Australia	2.81	3.68	6.60	(2.45)
Belgium	0.56	1.91	2.48	(2.51)
Canada	1.81	3.42	5.29	(1.44)
Denmark	(0.06)	1.53	1.46	(0.71)
Euro zone	0.64	1.89	2.54	(2.58)
France	0.60	1.80	2.41	(2.98)
Germany	0.85	1.88	2.75	(2.17)
Italy	0.45	1.98	2.44	(2.75)
Japan	0.82	(0.14)	0.68	5.01
Netherlands	0.88	2.03	2.93	(2.58)
Spain	0.63	1.89	2.53	(2.87)
Sweden	1.56	2.53	4.14	(2.68)
United Kingdom	1.95	2.27	4.26	(1.33)
United States	1.52	3.97	5.55	(2.88)
GLOBAL	1.09	2.16	3.28	(1.20)

Source: JP Morgan



FIXED-INCOME MARKET DEVELOPMENT, YEAR TO DATE 2000

(Monthly Data)

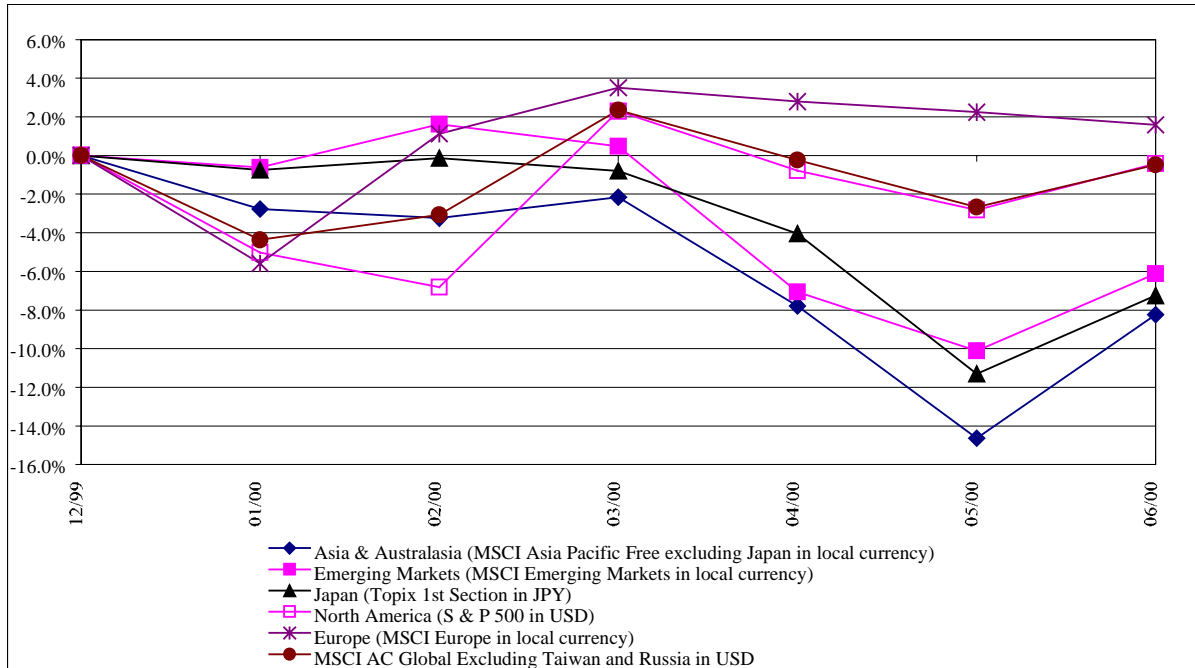


Source: State Street Analytics



EQUITY MARKET DEVELOPMENT, YEAR TO DATE 2000

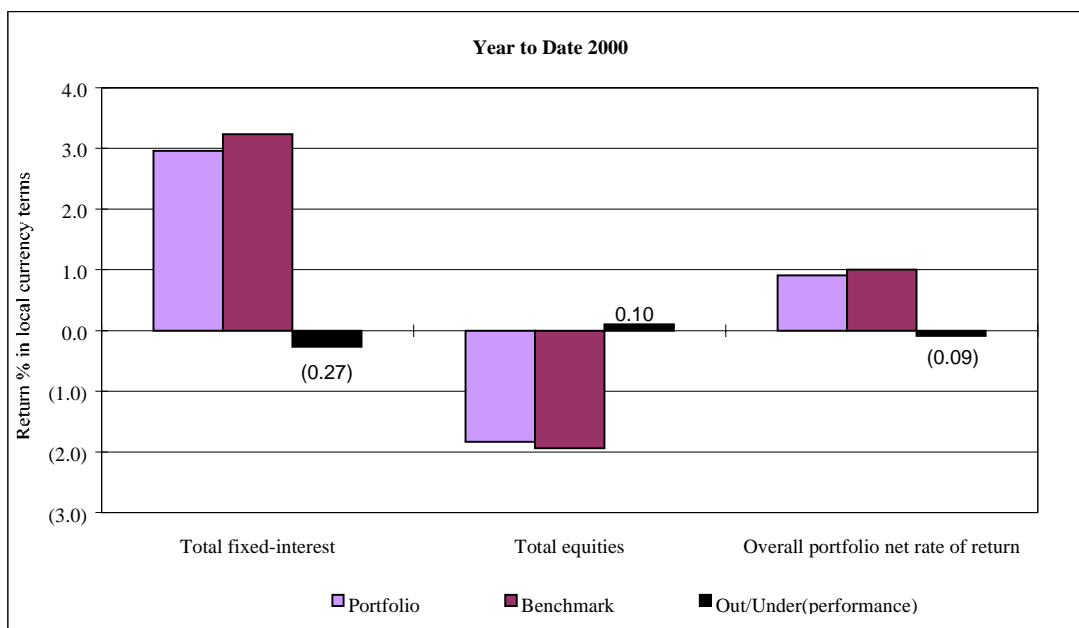
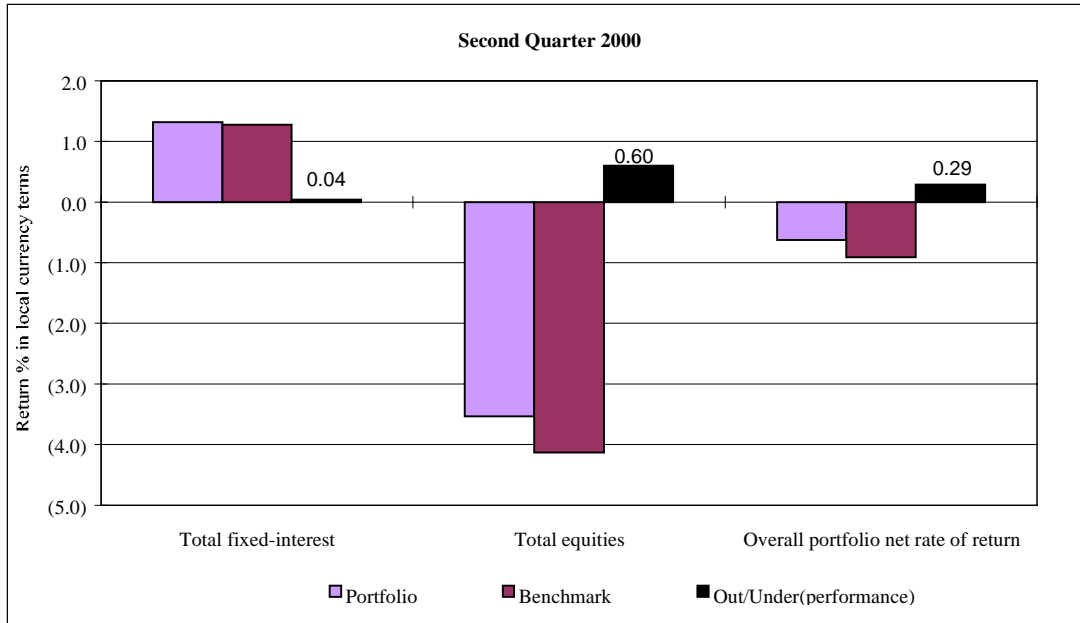
(Monthly data)



Source: State Street Analytics

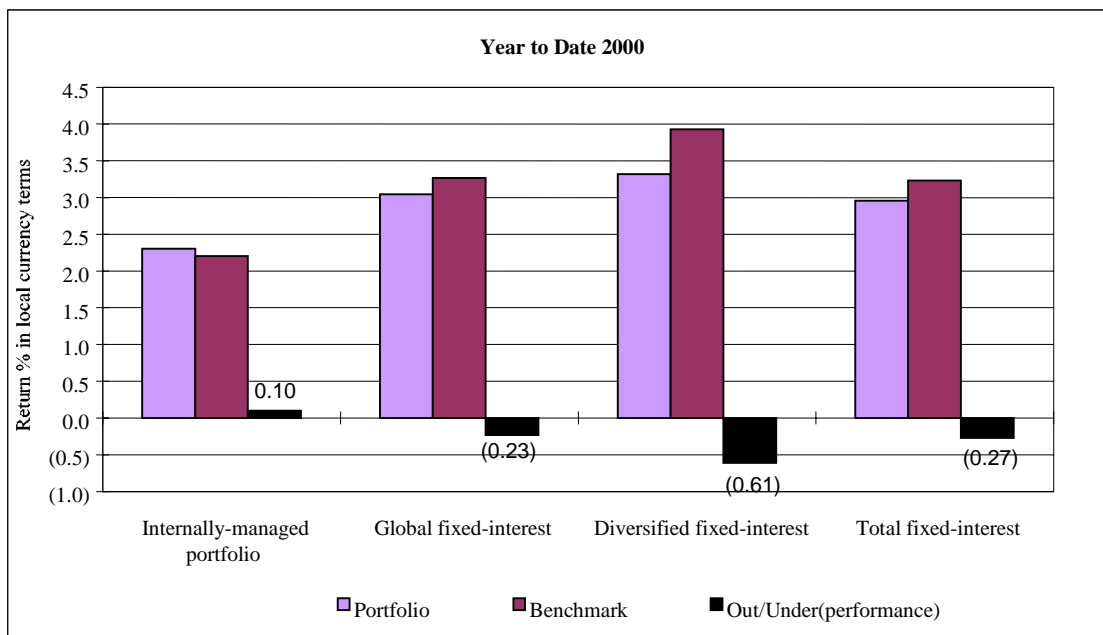
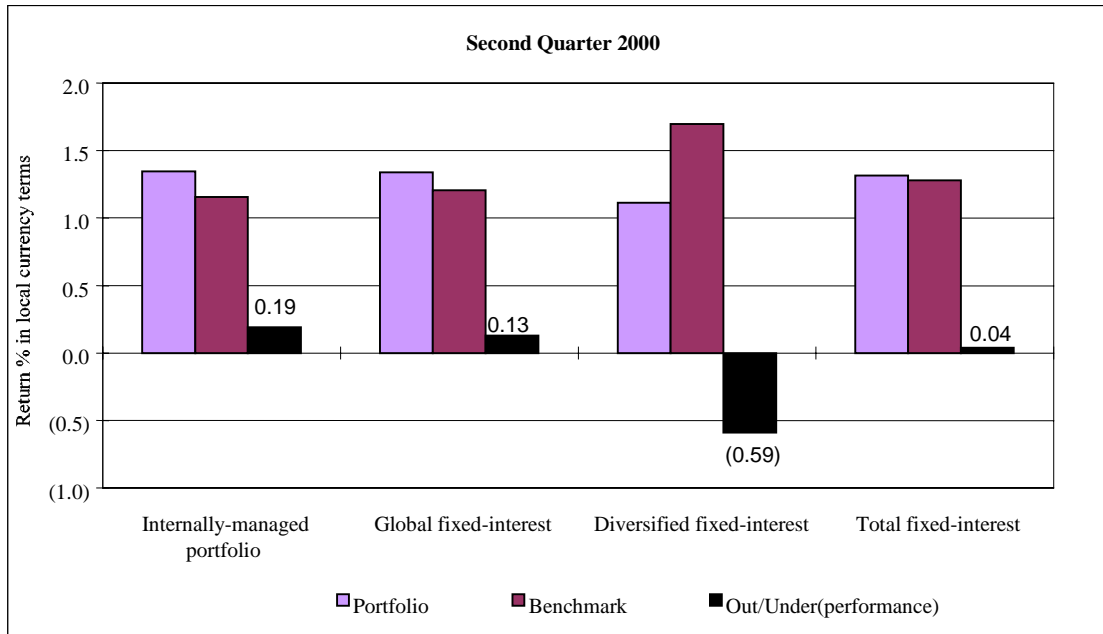


PERFORMANCE – OVERALL PORTFOLIO





PERFORMANCE – FIXED-INTEREST PORTFOLIO





PERFORMANCE – EQUITIES PORTFOLIO

