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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Executive Board – Seventy-First Session

Rome, 6-7 December 2000

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

I. INTRODUCTION

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

2. Annex XIV contains an abbreviated form of the report, which is presented for the information of Members of the Executive Board as a possible format for future quarterly reports for the first three quarters of the year. It is envisaged that the report on the investment portfolio for each calendar year, which is presented to the Executive Board at its spring Session, will continue to contain fully detailed information on the investment portfolio.

II. HIGHLIGHTS

3. In the third quarter of 2000, there was increasing uncertainty about the global economy, the major reason being the renewed surge in energy prices.

4. Fixed-income investments continued to perform well, showing an average gross rate of return of 1.52% for the quarter and reflecting an outperformance relative to the benchmark of 7 basis points.

5. Equities continued to perform negatively, the major reason being the increased uncertainty about the global economy. The average gross rate of return on equities for the period was negative at -3.24%. The return reflects an outperformance of 28 basis points against the benchmark, due to most equity mandates showing an outperformance.

6. Aggregate net investment income in the third quarter amounted to a loss of USD 17 056 000 equivalent, which, added to income of USD 21 055 000 equivalent for the first six months of 2000, amounts to USD 3 999 000 equivalent for the first nine months of 2000 (1999 – USD 194 469 000 equivalent).

7. The average rate of return for the third quarter of 2000 was negative at -0.73%. With a rate of return of 0.91% for the first six months of 2000, this results in a return for the first nine months of 2000 of 0.17% (annualized 0.23%), compared with 8.78% in 1999. The aggregate portfolio outperformed the benchmark by 16 basis points in the third quarter, which, taking into account the underperformance of 9 basis points in the first six months, resulted in an outperformance of 8 basis points for the first nine months of 2000 (1999 — outperformance 66 basis points).

8. The amount of the investment portfolio decreased from USD 2 243 073 000 equivalent as of 30 June 2000 to USD 2 148 764 000 equivalent as of 30 September 2000 due to negative investment income, negative exchange movements resulting from the appreciation of the United States dollar against the other currencies included in the Special Drawing Rights (SDR) valuation basket and other net outflows.

9. The diversification programme proceeded with the funding of a North American small capitalization equities mandate in the amount of USD 10 million, two European small capitalization mandates in the aggregate amount of USD 60 million and the second tranche of the global equities mandate in the amount of USD 117 268 000 equivalent.

III. ECONOMIC BACKGROUND

Gross Domestic Product

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

11. In the United States, stronger growth than expected in the first half year has led to rising growth forecasts for 2000 and 2001. The third quarter of 2000 is expected to show slowing growth due to higher borrowing and energy costs. Consumer spending reaccelerated after a weak second quarter, but growth in manufacturing output weakened. Record low unemployment and high confidence are supporting a continued, solid growth of 3% to 4% per annum.

12. The Japanese economy continues to improve gradually. The quarterly Tankan Report showed that business confidence is at a three-year high and that companies are planning increased spending. Growth forecasts continue to lie within a fairly wide range, but they generally show gradual improvement in 2000-2002.

13. The growth forecast for the Euro zone in 2000 and 2001 has been adjusted somewhat downwards. Interest rate increases over the past 12 months are starting to have an impact, together with the combination of higher energy prices and the decline of the Euro to record lows. The slowdown could, however, be relatively short-lived, as oil prices are forecast to come down, fiscal policies are easing, labour markets are improving and the weak currency is supporting exports.

14. In the United Kingdom, growth slowed in the third quarter, probably due to higher energy prices affecting consumer spending. Forecasts show growth gradually slowing in the years 2000-2002, but continued strong domestic demand might lead to stronger growth than expected.

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 unemployment rate in the United States dropped back to its 30-year low, and unemployment in the United Kingdom reached a 25-year low. In the Euro zone, the trend of falling unemployment is forecast to continue. In Japan, the labour market shows signs of stabilizing, and in particular real wages are rising.

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 continued to rise, following the renewed surge in energy prices. Inflation is generally expected to fall in 2001 if energy prices come down. However, global core inflation (excluding food and energy prices) is expected to continue increasing. These trends have been visible in the United States as well as in the Euro zone, although the latter also suffers from the Euro's weakness. In the United Kingdom, inflation pressures may be reinforced by the record tight labour market, the loose fiscal policy and the depreciation of the Pound Sterling against the United States dollar.

Monetary Policies

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

20. The United States kept its overnight bank-lending rate at 6.50% during the third quarter of 2000.

21. On emerging signs of economic recovery, the Bank of Japan raised its official discount rate to 0.25% in August and thereby ended the near-zero interest rate policy.

22. The European Central Bank raised its official overnight rate by 25 basis points to 4.5% in August to prevent inflation and to support the currency.

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

Exchange Rates

24. Annex V illustrates the end-of-month exchange rates of the United States dollar against the other three currencies included in the SDR valuation basket.

25. The Pound Sterling continued to weaken against the United States dollar, and the Japanese Yen also depreciated slightly.

26. The Euro depreciated some 9% against the United States dollar, despite an intervention by G-7 countries in September to bolster the currency.

Fiscal Policy

27. Annex VI illustrates the budget deficit 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 2001-2002. Also, the Euro zone is projected to show decreasing deficits in 2000-2002. The United Kingdom is forecast to show a small budget surplus in 2000 and some deficit in the following years. After significant increases in budget deficits in 1999, Japan is forecast to show gradually decreasing deficits.

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 strongly in the third quarter as the economy showed signs of slowing and there was a decreasing need for further interest rate hikes. Also in the Euro zone and the United Kingdom, long-term rates fell on signs of moderating growth. In Japan, long-term rates rose after the Bank of Japan ended its near-zero interest rate policy and economic data came in stronger.

31. Short-term interest rates rose in the Euro zone and in Japan, following monetary tightenings and in anticipation of future tightening in the Euro zone. Short-term interest rates remained largely unchanged in the United States and the United Kingdom.

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 Japan, for which the return was negative, individual bond markets, and in particular in the United States, produced strong returns.

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 notably outperformed government bonds due to a flight to high-quality credits, such as mortgages and agency loans, from riskier securities.

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 continued to perform negatively in the third quarter of 2000. The major reason was the increased uncertainty about the global economy. In the quarter, several major technology companies issued profit warnings, partly due to the negative effects of the weak Euro on multinational companies’ revenues.

V. INVESTMENT INCOME AND STRATEGY

Overall Portfolio Performance

35. Net investment income for the third quarter of 2000 showed a loss of USD 17 056 000 equivalent, which, added to income of USD 21 055 000 equivalent for the first six months of 2000, amounted to USD 3 999 000 equivalent for the first nine 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)

	3rd Quarter 2000 Fixed-Interest Portfolio	3rd Quarter 2000 Equity Portfolio	3rd Quarter 2000 Overall Portfolio	Year to 30.06.2000	Year to Date 2000	1999
Interest from fixed-interest investments and bank accounts	16 666	346	17 012	35 379	52 391	90 253
Dividend income from equities	-	2 979	2 979	6 728	9 707	8 684
Realized capital gains	(382)	7 497	7 115	5 949	13 064	3 861
Unrealized capital gains	3 053	(44 859)	(41 806)	(21 324)	(63 130)	101 272
Subtotal: Gross investment income	**19 337**	**(34 037)**	**(14 700)**	**26 732**	**12 032**	**204 070**
Securities lending income	184	42	226	128	354	539
Investment manager fees	(645)	(1 389)	(2 034)	(3 974)	(6 008)	(7 192)
Custody fees	(205)	(449)	(654)	(1 289)	(1 943)	(1 870)
Financial advisory and other investment management fees	(1)	-	(1)	(341)	(342)	(508)
Taxes	253	(102)	151	(149)	2	(286)
Other investment expenses	(48)	4	(44)	(52)	(96)	(284)
Net investment income	**18 875**	**(35 931)**	**(17 056)**	**21 055**	**3 999**	**194 469**

36. Movements affecting the overall portfolio during the third quarter of 2000 are shown in Table 2. During the third quarter, USD 187 268 000 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 – Third Quarter 2000
(USD '000 equivalent)

	Fixed-Interest Portfolio	Equities Portfolio	Overall Portfolio
Opening balance (30 June 2000)	1 345 760	897 313	2 243 073
Transfers between portfolios due to allocation	(187 268)	187 268	-
Transfers between portfolios due to expenses	(1 796)	1 796	-
Other net flows	(17 175)	-	(17 175)
Gross investment income	19 337	(34 037)	(14 700)
Securities lending income	184	42	226
Fees, charges and taxes	(646)	(1 936)	(2 582)
Movements on exchange	(41 948)	(18 130)	(60 078)
Closing balance (30 September 2000)	1 116 448	1 032 316	2 148 764

37. After taking account of investment expenses, including fees for custody and investment management, the overall rate of return of the portfolio for the third quarter of 2000 was negative at -0.73%. With a rate of return of 0.91% for the first six months of 2000, this results in a rate of return for the first nine months of 2000 of 0.17% (annualized 0.23%), compared with 8.78% for 1999. In the third quarter of the year, the fixed-interest portfolio continued to perform positively while the equity portfolio was affected by further market corrections.

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 16 basis points for the third quarter of 2000 compared with an overall underperformance of 9 basis

points for the first six months of the year, resulting in an overall outperformance of 8 basis points for the first nine months of 2000 (cf. 1999 overall outperformance of 66 basis points). This information is presented graphically in Annex XI.

Table 3: Overall Performance Compared with Benchmarks – Third Quarter 2000

Portfolio	Rate of Return %		Out/(Under) Performance
	Portfolio	Benchmark	
Total fixed-interest	1.52	1.45	0.07
Total equities	(3.24)	(3.52)	0.28
Overall portfolio gross rate of return	(0.63)	(0.79)	0.16
Less expenses	(0.10)	(0.10)	0.00
Overall portfolio net rate of return	(0.73)	(0.89)	0.16
Year to date 2000 net rate of return	0.17	0.09	0.08
C.f. 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 third quarter of 2000 amounted to USD 18 875 000 equivalent, as shown in Table 4.

Table 4: Investment Income on the Fixed-Interest Portfolio – Third 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	1 376	11 520	3 770	16 666
Dividend income from equities	-	-	-	-
Realized capital gains	-	(1 205)	823	(382)
Unrealized capital gains	-	1 791	1 262	3 053
Subtotal: Gross investment income	**1 376**	**12 106**	**5 855**	**19 337**
Securities lending income	-	184	-	184
Investment manager fees	-	(425)	(220)	(645)
Custody fees	(27)	(115)	(63)	(205)
Financial advisory and other investment management fees	-	(1)	-	(1)
Taxes	-	255	(2)	253
Other investment expenses	(19)	(29)	-	(48)
Net investment income	**1 330**	**11 975**	**5 570**	**18 875**

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

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

	Internally Managed Portfolio	Global Fixed-Interest Portfolio	Diversified Fixed-Interest Portfolio	Total Fixed-Interest Portfolio
Opening balance (30 June 2000)	96 456	1 030 744	218 560	1 345 760
Transfers between portfolios due to allocation	(27 268)	(160 000)	-	(187 268)
Transfers between portfolios due to expenses	(2 181)	102	283	(1 796)
Other net flows	(17 175)	-	-	(17 175)
Gross investment income	1 376	12 106	5 855	19 337
Securities lending income	-	184	-	184
Fees, charges and taxes	(46)	(315)	(285)	(646)
Movements on exchange	(2 580)	(39 327)	(41)	(41 948)
Closing balance (30 September 2000)	48 582	843 494	224 372	1 116 448

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 – Third Quarter 2000

	Rate of Return %		Out/(Under) performance
Portfolio	**Portfolio**	**Benchmark**	
Internally managed portfolio	1.50	1.22	0.28
Global fixed-interest	1.26	1.11	0.15
Diversified fixed-interest	2.68	3.05	(0.37)
Total fixed-interest	1.52	1.45	0.07
Year to date 2000 total fixed-interest	4.52	4.73	(0.21)
C.f. 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 1.52% for the third quarter of 2000 compared with the aggregate benchmark return of 1.45%, resulting in an outperformance of 7 basis points for the total fixed-interest portfolio.

44. In the third quarter of 2000, all fixed-interest sectors outperformed except for the diversified fixed-interest portfolio, which underperformed mainly due to overweighting non-United States bonds against outperforming United States bonds such as treasuries, mortgages and agencies.

Table 7: Duration of the Global Fixed-Interest and Diversified Fixed-Interest Portfolios
(Years)

	30 September 2000	30 June 2000
Global fixed-interest portfolio	6.12	5.82
Global fixed-interest benchmark	5.95	5.99
Diversified fixed-interest portfolio	4.95	5.20
Diversified fixed-interest benchmark	5.06	4.97

Equities Portfolio

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

46. The aggregate net income attributable to the equities portfolio for the third quarter of 2000 amounted to a loss of USD 35 931 000 equivalent, as shown in Table 8.

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

	Japanese Equities	Asian and Australasian Equities	Emerging Markets Equities	Currency Overlay	North American Equities	European Equities	Global Equities	Total Equities Portfolio
Interest from fixed-interest investments and bank accounts	-	89	40	107	4	58	48	346
Dividend income from equities	350	650	365	53	599	448	514	2 979
Realized capital gains	2 620	492	658	-	4 372	689	(1 334)	7 497
Unrealized capital gains	(15 152)	(11 317)	(10 558)	-	5 033	(8 867)	(3 998)	(44 859)
Subtotal: Gross investment income	**(12 182)**	**(10 086)**	**(9 495)**	**160**	**10 008**	**(7 672)**	**(4 770)**	**(34 037)**
Securities lending income	33	3	1	-	4	-	1	42
Investment manager fees	(179)	(161)	(300)	-	(349)	(163)	(237)	(1 389)
Custody fees	(17)	(54)	(164)	(6)	(66)	(22)	(120)	(449)
Financial advisory and other investment management fees	-	-	-	-	-	-	-	-
Taxes	-	(32)	(26)	-	-	(32)	(12)	(102)
Other investment expenses	-	2	5	(1)	-	-	(2)	4
Net investment income	**(12 345)**	**(10 328)**	**(9 979)**	**153**	**9 597**	**(7 889)**	**(5 140)**	**(35 931)**

47. Movements affecting the equities portfolio during the third quarter of 2000 are shown in Table 9. A total of USD 187 268 000 equivalent was transferred from the fixed-interest portfolio in order to fund three equities mandates. A North American small capitalization equities mandate was funded in the amount of USD 10 million; two European small capitalization equities mandates were funded in the amount of USD 60 million equivalent; and the global equities mandate was funded with a second tranche, in the amount of USD 117 268 000 equivalent.

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

	Japanese Equities	Asian and Australasian Equities	Emerging Markets Equities	Currency Overlay	North American Equities	European Equities	Global Equities	Total Equities Portfolio
Opening balance (30 June 2000)	166 183	111 509	101 744	9 905	235 993	144 697	127 282	897 313
Transfers between portfolios due to allocation	-	-	-	-	10 000	60 000	117 268	187 268
Transfers between portfolios due to expenses	163	212	463	6	411	185	356	1 796
Gross investment income	(12 182)	(10 086)	(9 495)	160	10 008	(7 672)	(4 770)	(34 037)
Securities lending income	33	3	1	-	4	-	1	42
Fees, charges and taxes	(196)	(245)	(485)	(7)	(415)	(217)	(371)	(1 936)
Movements on exchange	(2 851)	(2 932)	(2 225)	(24)	-	(5 913)	(4 185)	(18 130)
Closing balance (30 September 2000)	151 150	98 461	90 003	10 040	256 001	191 080	235 581	1 032 316

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 – Third Quarter 2000

Portfolio	Rate of Return % Portfolio	Rate of Return % Benchmark	Out/(Under) Performance
Japanese equities	(7.33)	(7.41)	0.08
Asian and Australasian equities (excluding Japan)	(9.05)	(9.93)	0.88
Emerging Markets equities	(9.33)	(9.73)	0.40
North American equities	4.37	3.28	1.09
European equities	(3.06)	(0.89)	(2.17)
Global equities (first tranch funded 2/2000)	(1.72)	(3.02)	1.30
Total equities	(3.24)	(3.52)	0.28
Year to date 2000 total equities	(5.02)	(5.39)	0.37
C.f. 1999 total equities	49.71	44.07	5.64

49. As indicated in Table 10, the overall return on the equity portfolio for the third quarter of 2000 was negative at -3.24%. This is compared to the aggregate benchmark return of -3.52%, resulting in an outperformance of 28 basis points for the total equities portfolio.

50. North American equities were the only positively performing mandate, due to the positive returns on medium and small capitalization equities. However, with the exception of European equities, all equity mandates showed an outperformance against their respective benchmarks. The underperformance in European equities was attributable to sector allocation as well as stock selection.

VI. COMPOSITION OF THE PORTFOLIO

General

51. As of 30 September 2000, the Fund’s investment portfolio amounted to USD 2 148 764 000 equivalent (30 June 2000 – USD 2 243 073 000 equivalent), excluding amounts subject to restrictions provided by donors for participation in specific IFAD projects and activities. During the third quarter of 2000, before movements on exchange rates are taken into account, the amount of the portfolio decreased by USD 34 231 000 equivalent (the first six months of 2000 showed a decrease of USD 21 334 000 equivalent), as indicated in Table 11.

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

	3rd Quarter 2000	Year to 30.06.2000	Year to Date 2000	12 Months to 31 December 1999
Opening balance	2 243 073	2 331 030	2 331 030	2 268 295
Net investment income	(17 056)	21 055	3 999	194 469
Other net flows	(17 175)	(42 389)	(59 564)	(77 810)
Increase, prior to exchange movements	(34 231)	(21 334)	(55 565)	116 659
Exchange movements	(60 078)	(66 623)	(126 701)	(53 924)
Closing balance	2 148 764	2 243 073	2 148 764	2 331 030

Composition of the Portfolio by Instrument

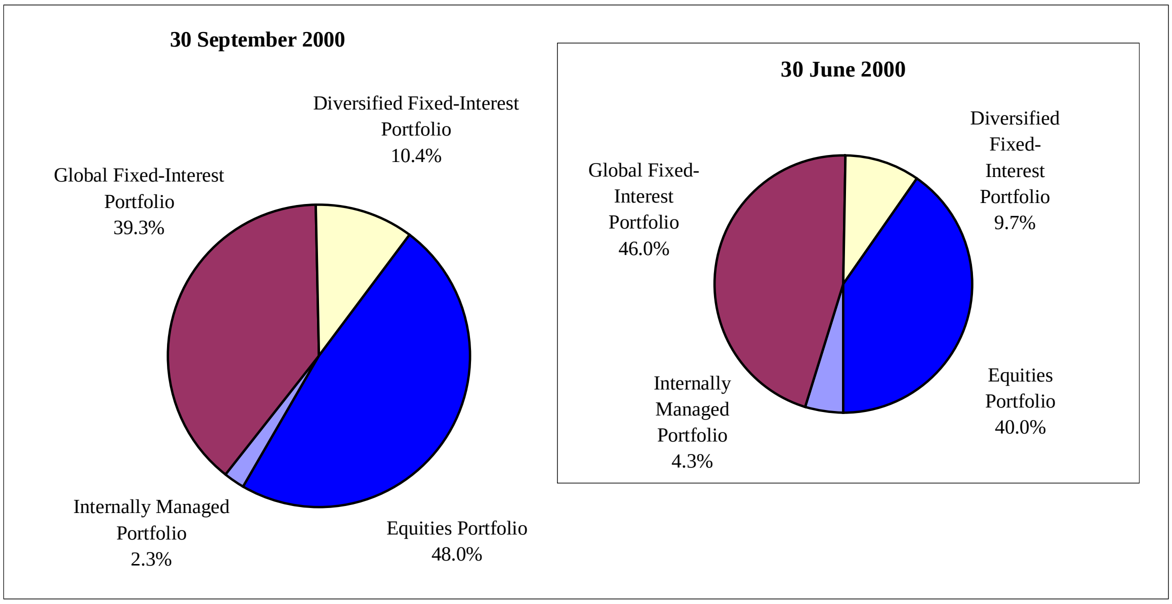
52. IFAD's portfolio is divided into fixed-interest and equities portfolios. Table 12 provides an analysis of the instruments found in each of the main sections of the investment portfolio.

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

Instruments	Total Fixed-Interest Portfolio 30.9.2000	Total Equities Portfolio 30.9.2000	Overall Portfolio 30.9.2000	Overall Portfolio 30.6.2000	Overall Portfolio 31.12.1999
Cash	44 103	13 827	57 930	60 923	71 889
Time-deposits	130 881	48 985	179 866	241 304	171 868
Global government bonds	819 482	-	819 482	934 550	1 171 821
Emerging market bonds	31 368	-	31 368	38 618	35 182
Mortgage-backed securities	84 520	-	84 520	70 811	60 760
Asset-backed securities	7 476	-	7 476	3 405	2 999
Corporate bonds	64 921	-	64 921	71 010	70 041
Equities	-	977 235	977 235	857 171	770 369
Futures	51	-	51	139	48
Options	-	-	-	7	(30)
Open trades	(85 388)	(9 186)	(94 574)	(57 525)	(52 838)
Accrued interest income	18 221	-	18 221	21 018	27 437
Dividends receivable	-	1 455	1 455	822	577
Non-convertible currencies	813	-	813	820	907
Total	**1 116 448**	**1 032 316**	**2 148 764**	**2 243 073**	**2 331 030**
Percentage	**52.0%**	**48.0%**	**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



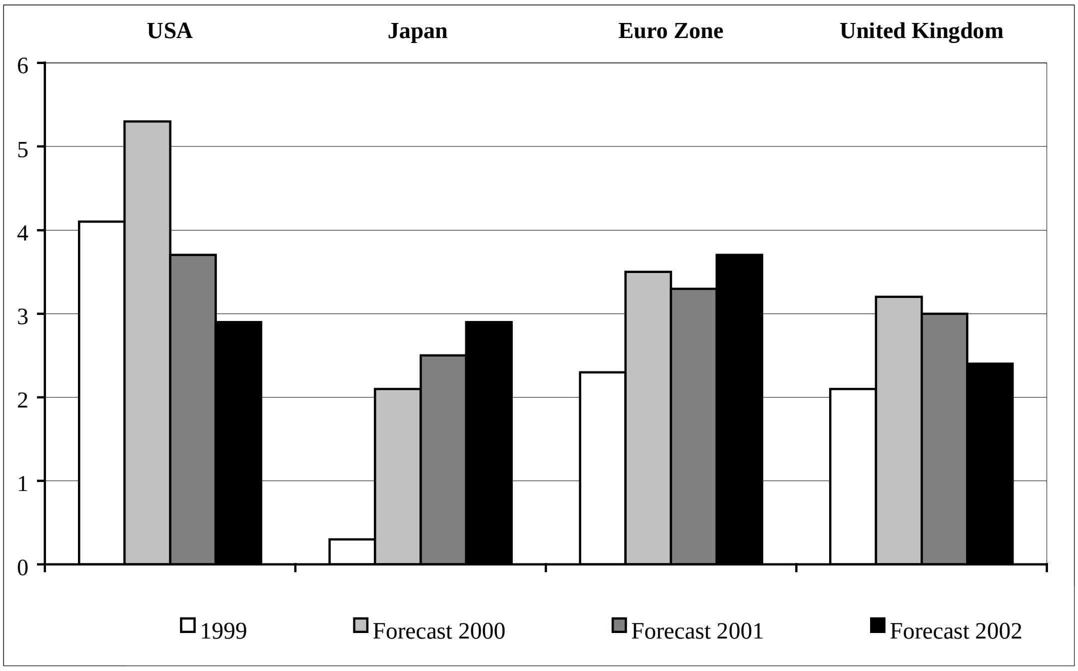
VII. DIVERSIFICATION OF THE INVESTMENT PORTFOLIO

54. In August 2000, the second tranche of the global equities mandate was funded in the amount of USD 117 268 000 equivalent.

55. In September 2000, a North American small capitalization equities mandate was funded in the amount of USD 10 million and two European small capitalization equities mandates were funded in the aggregate amount of USD 60 million.

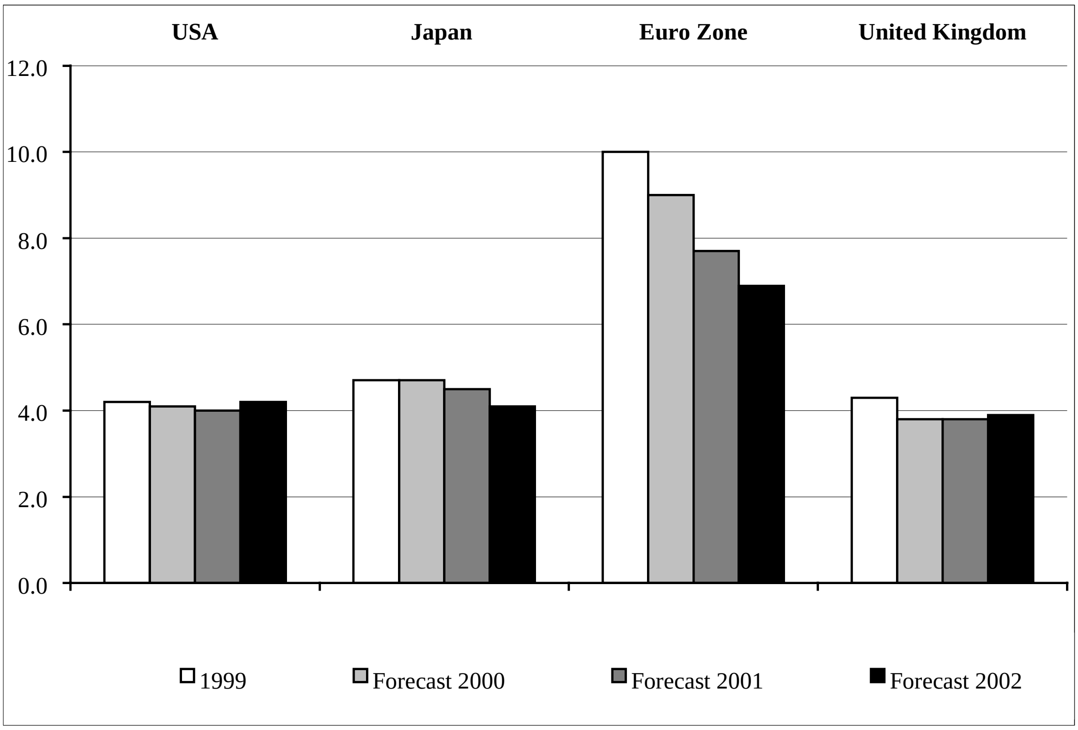
56. With the transfers from the fixed-income portfolio to the equities portfolio of USD 187 268 000 during the third quarter, the asset allocation targets for the overall portfolio were reached. Henceforth, IFAD will draw on earnings of both the fixed-interest and equities portions of the portfolio to cover disbursement requirements for loans and grants and administrative expenses.

PERCENTAGE CHANGE IN REAL GDP



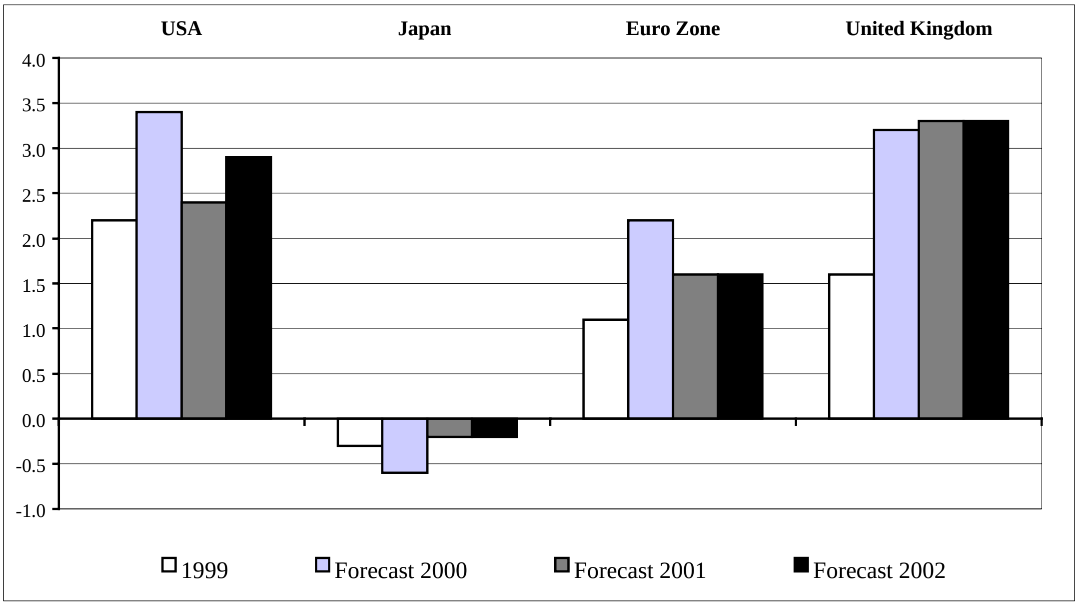
Source: J.P. Morgan

UNEMPLOYMENT RATE – PERCENTAGE OF LABOUR FORCE



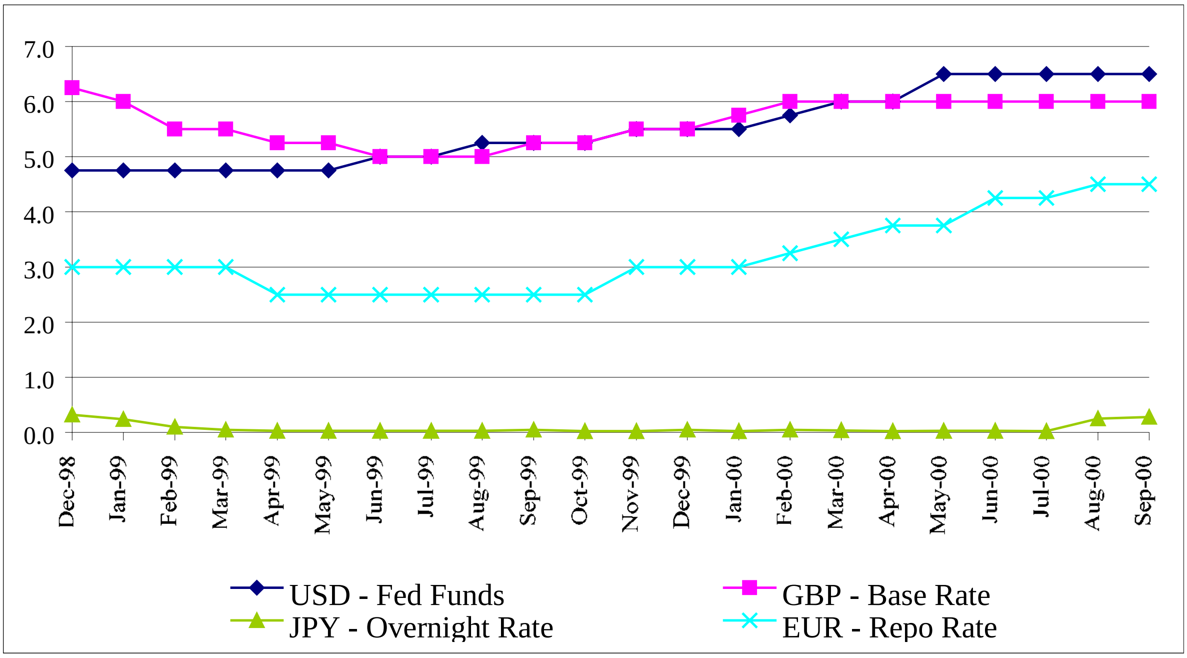
Source: J.P. Morgan

CONSUMER PRICE INDEX – ANNUALIZED RATES



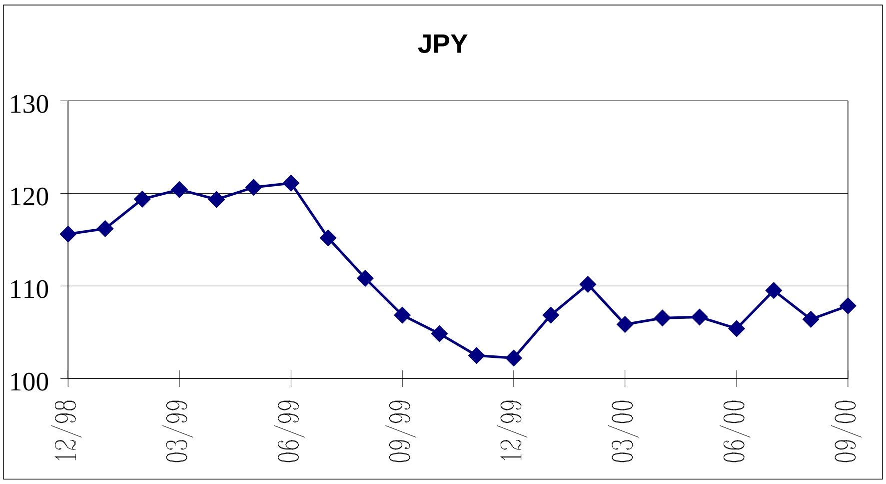
Source: J.P. Morgan

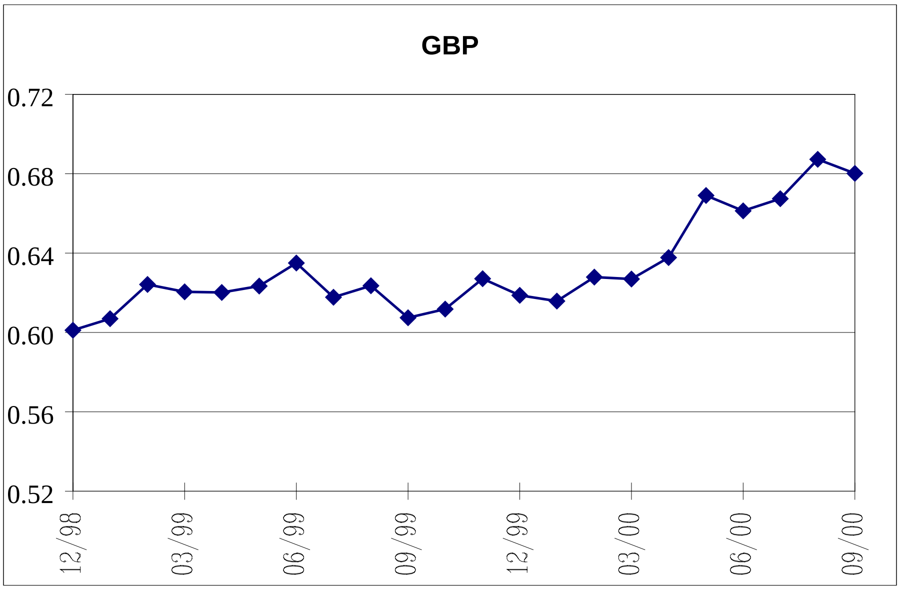
CENTRAL BANK AND GOVERNMENT-CONTROLLED INTEREST RATES

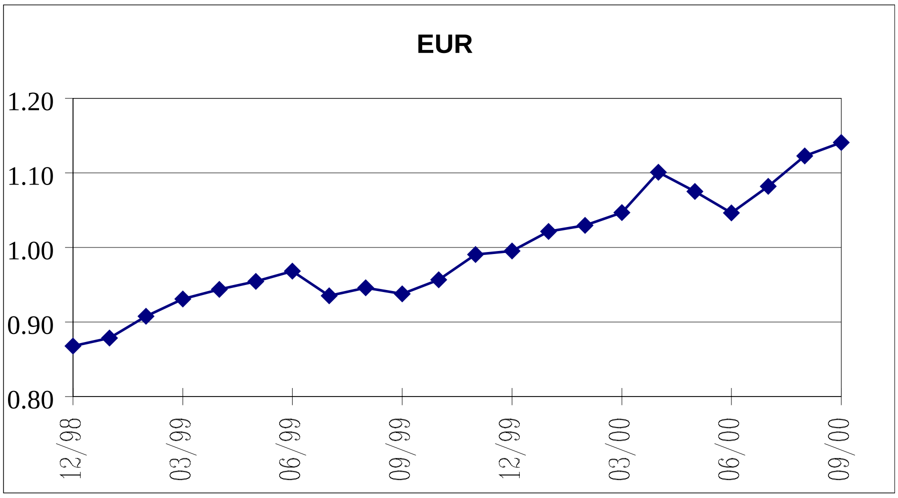


Source: Bloomberg

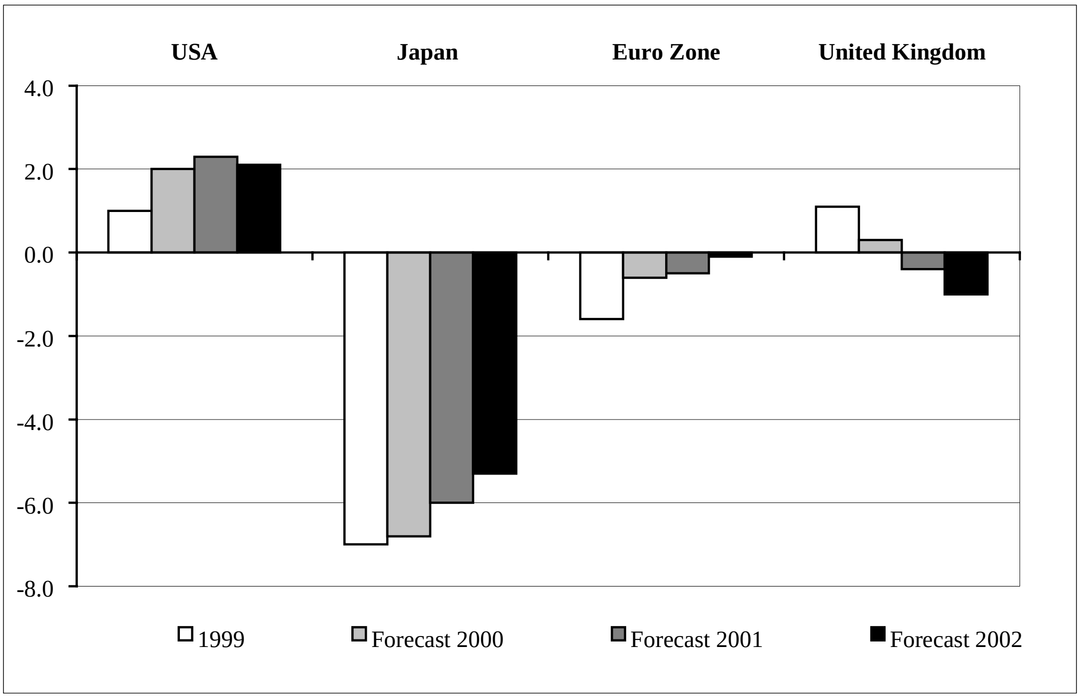
VALUE OF THE UNITED STATES DOLLAR AT IMF MONTH-END EXCHANGE RATES







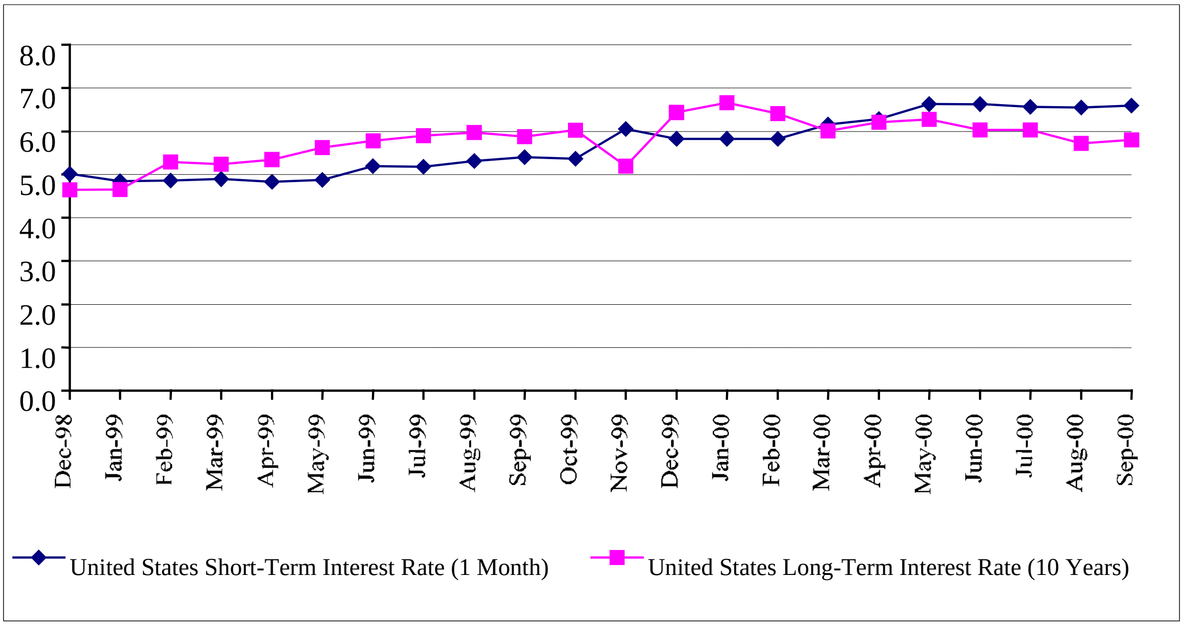
BUDGET DEFICITS – AS PERCENTAGE OF GDP



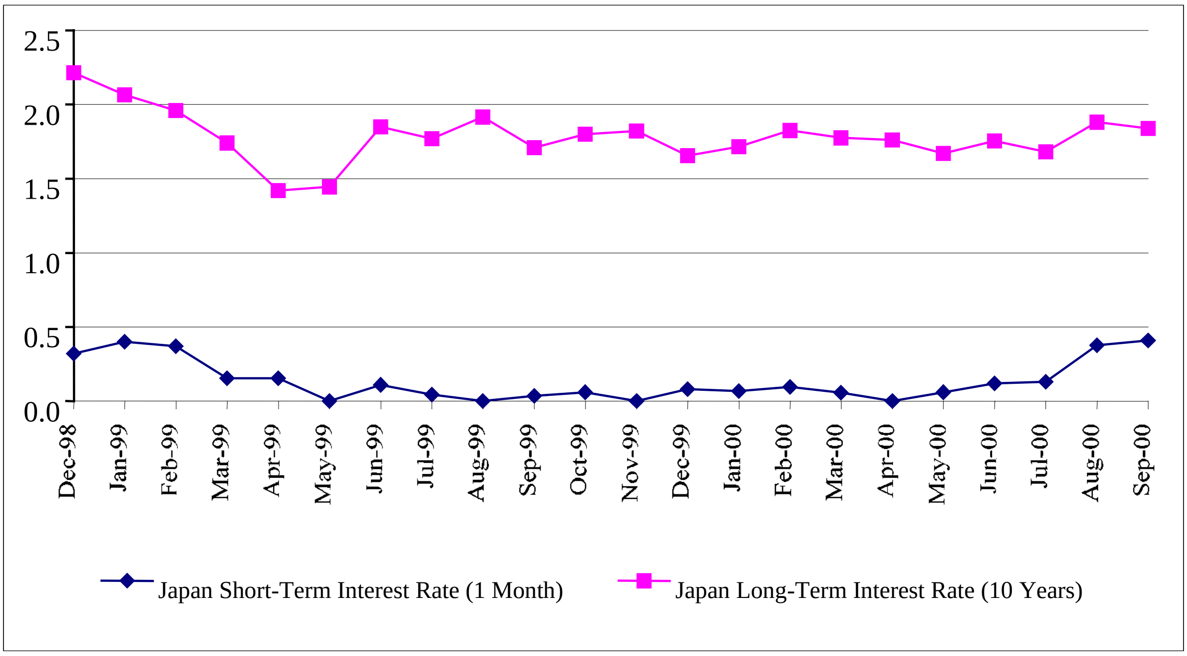
Source: J.P. Morgan

SHORT AND LONG-TERM INTEREST RATES

United States

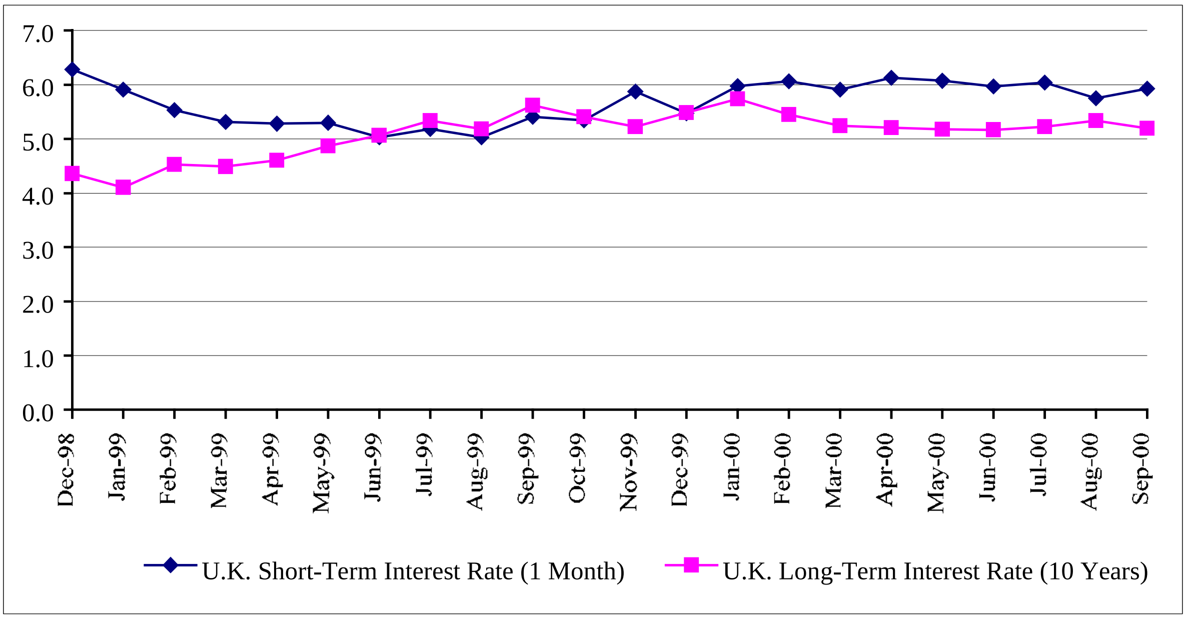


Japan

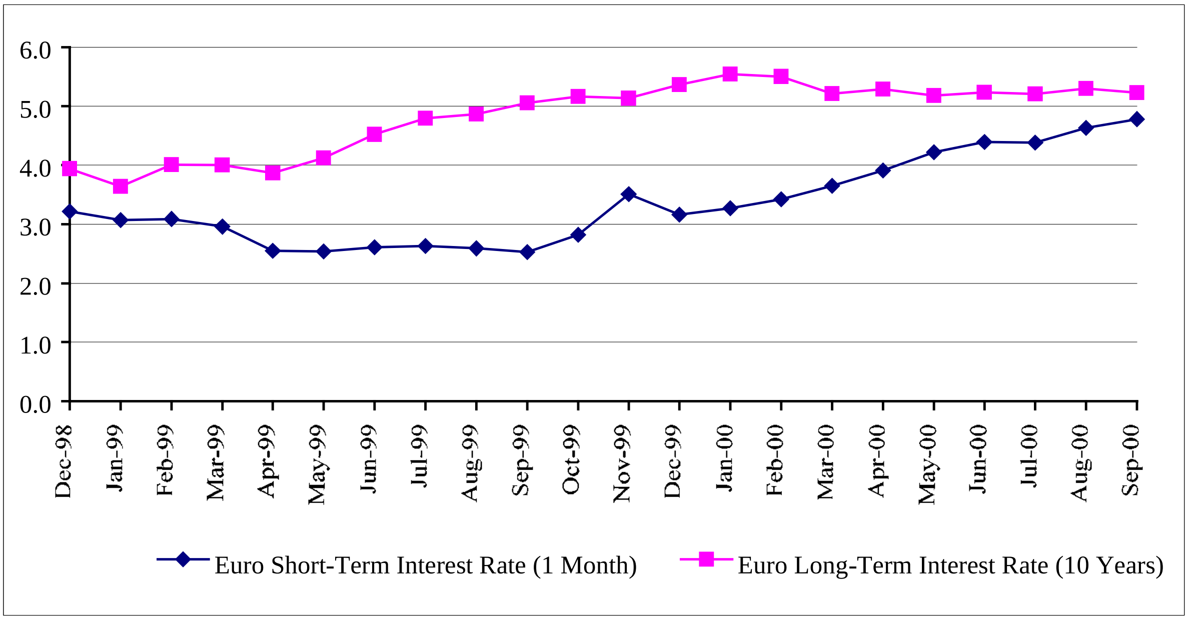


Source: Bloomberg

United Kingdom



Euro Zone



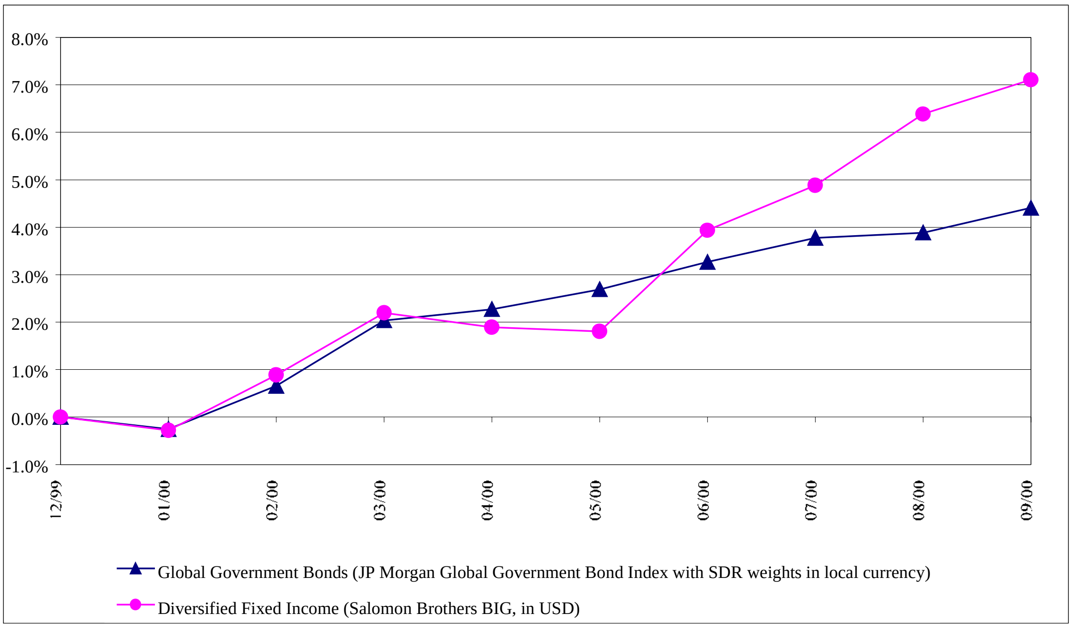
Source: Bloomberg

GOVERNMENT BOND RETURNS PER COUNTRY INCLUDED IN THE J.P. MORGAN GOVERNMENT BOND TRADED INDEX

(Percentage in local currency terms)

Country	Third Quarter 2000	Second Quarter 2000	First Quarter 2000	Year to Date 2000	1999
Australia	1.05	2.81	3.68	7.72	(2.45)
Belgium	1.16	0.56	1.91	3.67	(2.51)
Canada	1.75	1.81	3.42	7.13	(1.44)
Denmark	1.66	(0.06)	1.53	3.15	(0.71)
Euro zone	1.11	0.64	1.89	3.69	(2.58)
France	1.14	0.60	1.80	3.58	(2.98)
Germany	1.04	0.85	1.88	3.82	(2.17)
Italy	1.15	0.45	1.98	3.62	(2.75)
Japan	(0.17)	0.82	(0.14)	0.51	5.01
Netherlands	1.12	0.88	2.03	4.09	(2.58)
Spain	1.10	0.63	1.89	3.67	(2.87)
Sweden	1.72	1.56	2.53	5.93	(2.68)
United Kingdom	0.70	1.95	2.27	4.99	(1.33)
United States	2.58	1.52	3.97	8.27	(2.88)
GLOBAL	1.25	1.09	2.16	4.57	(1.20)

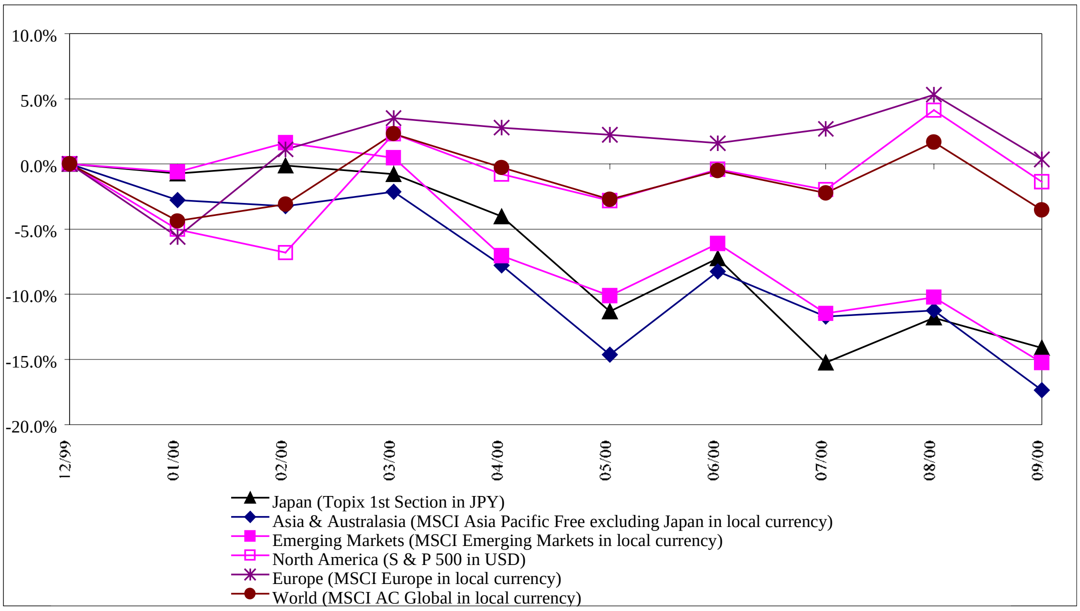
FIXED-INCOME MARKET DEVELOPMENT – YEAR TO DATE 2000



Source: State Street Analytics

ANNEX X

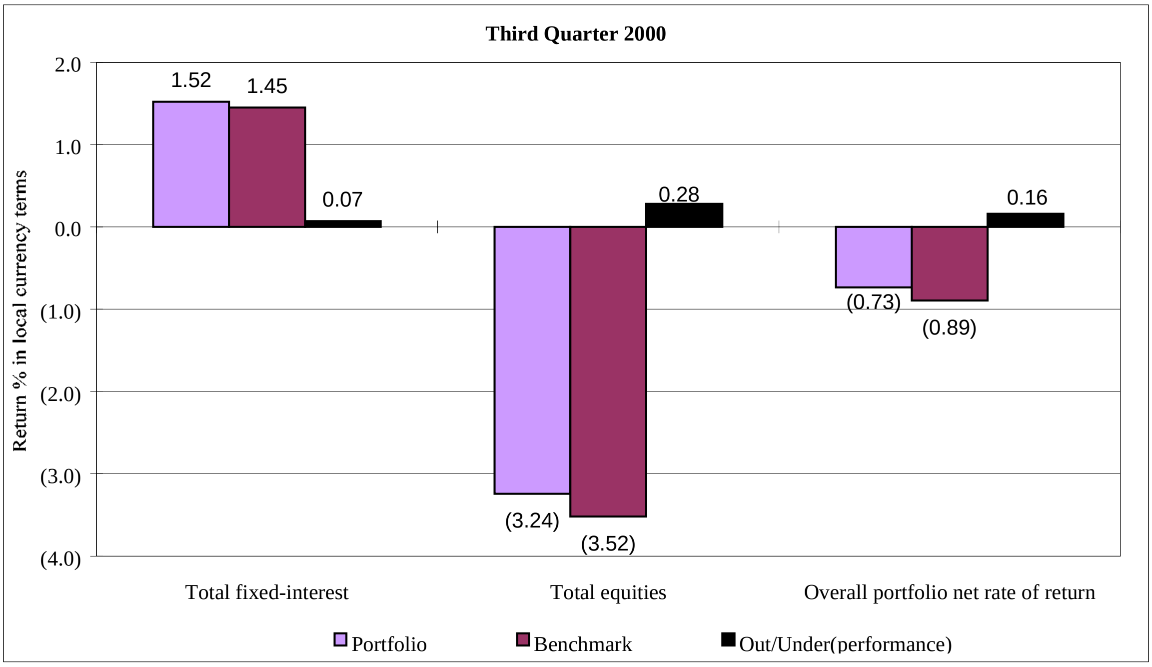
EQUITY MARKET DEVELOPMENT – YEAR TO DATE 2000

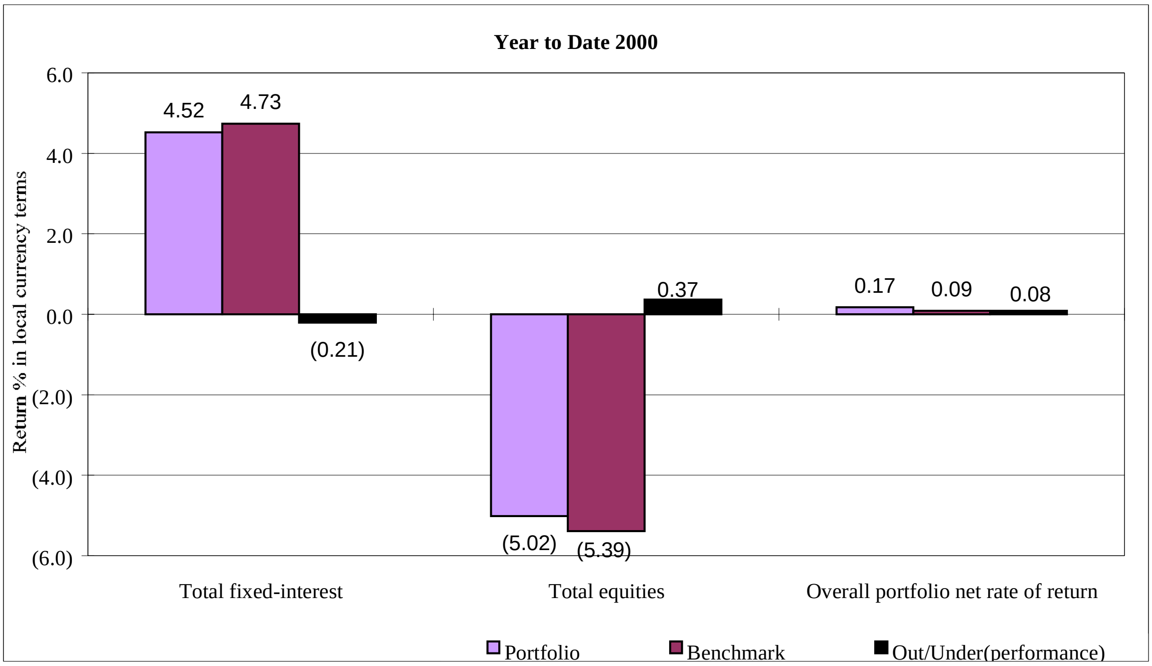


Source: State Street Analytics

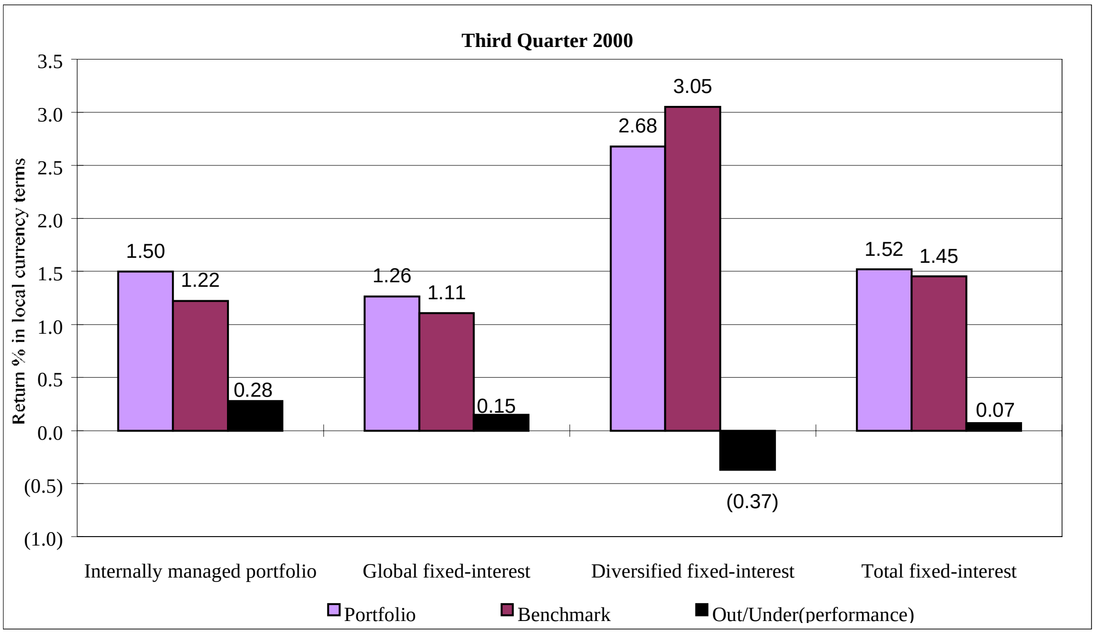
ANNEX XI

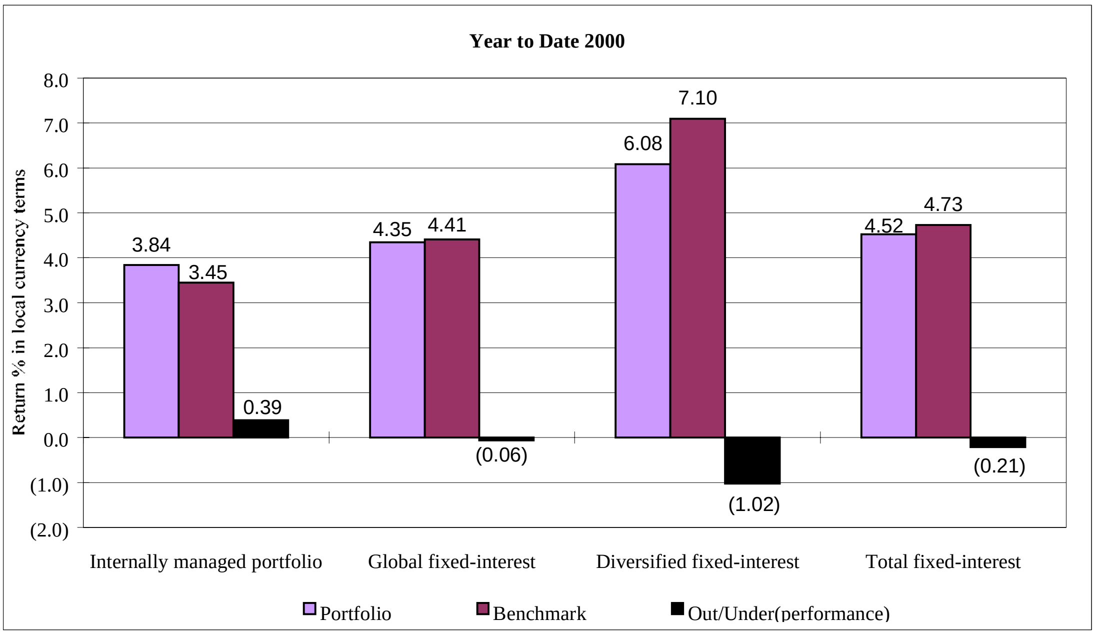
PERFORMANCE – OVERALL PORTFOLIO



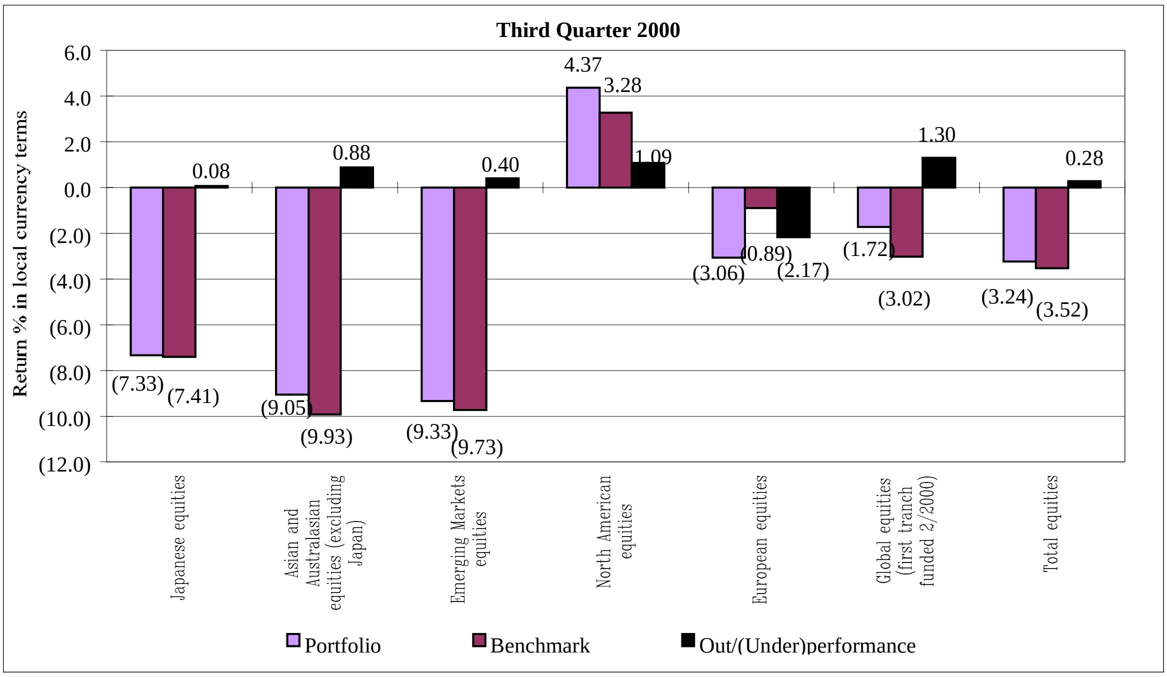


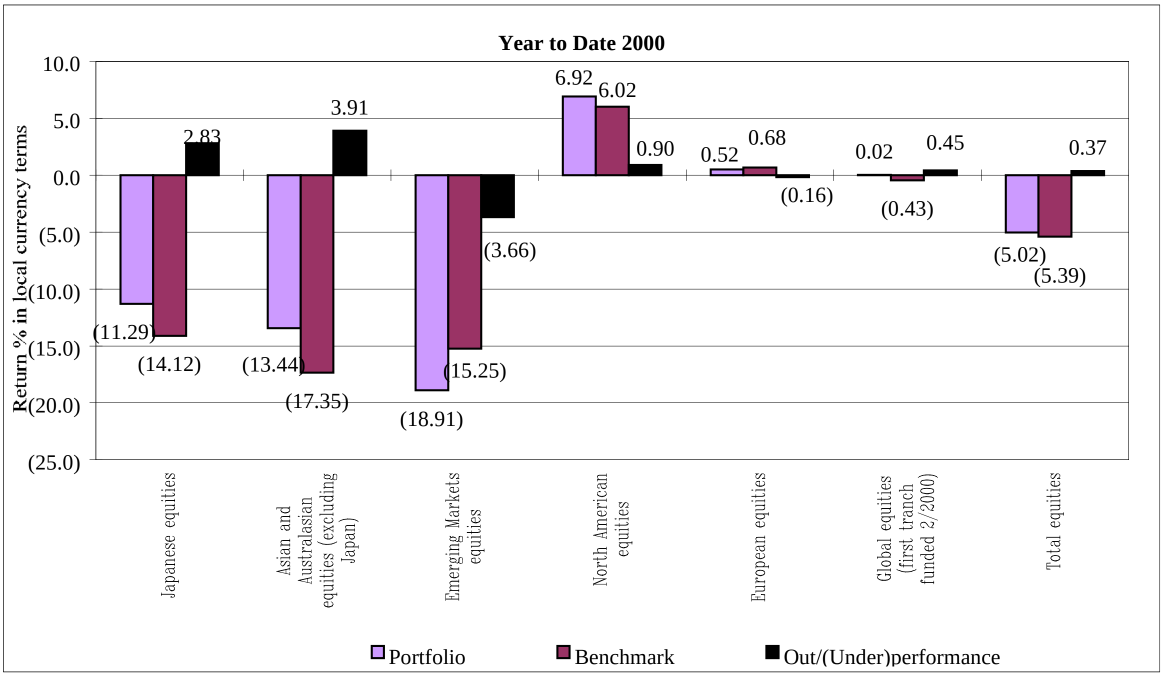
PERFORMANCE – FIXED-INTEREST PORTFOLIO





PERFORMANCE – EQUITIES PORTFOLIO





REVISED ALTERNATIVE FORMAT FOR QUARTERLY REPORTS
ON THE INVESTMENT PORTFOLIO
PRESENTED TO THE EXECUTIVE BOARD

Abbreviated Version

I. INTRODUCTION

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

2. The report includes four sections that cover the following topics: asset allocation, investment income, performance and currency composition.

II. ASSET ALLOCATION

3. Table 1 shows, *inter alia*, the actual allocation of the investment portfolio between various asset classes compared with the policy allocation. During the third quarter of 2000, the diversification programme proceeded with the funding of a North American small capitalization equities mandate in the amount of USD 10 million, two European small capitalization mandates in the aggregate amount of USD 60 million, and the second tranche of the global equities mandate in the amount of USD 117 268 000 equivalent.

4. Thus, at the end of the third quarter, the targets set under the diversification programme were met, and henceforth the Fund will draw on earnings of all sectors of the portfolio to meet disbursement requirements for loans and grants and administrative expenses.

Table 1: Summary of Movements in Cash and Investments Third Quarter 2000
(USD '000 equivalent)

	Internally Managed Portfolio	**Global Government Bonds**	**Diversified Fixed-Interest**	**Equities**	**Overall Portfolio**
Opening Balance (30 June 2000)	**96 456**	**1 030 744**	**218 560**	**897 313**	**2 243 073**
Gross Investment Income	1 376	12 106	5 855	(34 037)	(14 700)
Securities Lending Income	-	184	-	42	226
Fees, Charges and Taxes	(46)	(315)	(285)	(1 936)	(2 582)
Net Investment Income	**1 330**	**11 975**	**5 570**	**(35 931)**	**(17 056)**
Transfers due to allocation	(27 268)	(160 000)	-	187 268	-
Transfers due to expenses	(2 181)	102	283	1 796	-
Transfers between portfolios	**(29 449)**	**(159 898)**	**283**	**189 064**	**-**
Other net flows	(17 175)	-	-	-	(17 175)
Movements on exchange	(2 580)	(39 327)	(41)	(18 130)	(60 078)
Closing Balance (30 September 2000)	**48 582**	**843 494**	**224 372**	**1 032 316**	**2 148 764**
Actual Allocation (%)	2.3	39.3	10.4	48.0	100.0
Policy Allocation (%)	5.0	40.0	10.0	45.0	100.0
Difference in Allocation (%)	(2.7)	(0.7)	0.4	3.0	0.0

III. INVESTMENT INCOME

5. Table 2 shows investment income for the third quarter of 2000 for the four major asset classes. Fixed-income investments continued to perform well. Equities were affected by further market correction as uncertainties about the global economy increased, the major reason being the renewed surge in energy prices.

6. Aggregate net investment income in the third quarter of 2000 amounted to a loss of USD 17 056 000 equivalent, which added to income of USD 21 055 000 equivalent for the first six months of 2000, amounted to USD 3 999 000 equivalent for the first nine months of 2000 (1999 - USD 194 469 000 equivalent).

Table 2: Net Investment Income
(USD ’000 equivalent)

	3rd Quarter 2000	Year to 30.06.2000	Year to Date 2000	1999	1998	1997
Internally Managed Portfolio	1 330	1 862	3 192	3 114	4 834	18 633
Global Government Bonds	11 975	29 142	41 117	(43 977)	195 506	154 228
Diversified Fixed-Interest	5 570	6 414	11 984	3 832	6 130	-
Equities	(35 931)	(16 363)	(52 294)	231 500	(18 571)	(8 921)
Overall Portfolio	**(17 056)**	**21 055**	**3 999**	**194 469**	**187 899**	**163 940**

7. Table 3 shows net income for the various sectors for the fixed-income portfolio for the third quarter of 2000. All sectors of the market showed positive returns for the period under review, and outperformed their benchmarks except for the diversified fixed-interest portfolio, which underperformed mainly due to overweighting non-United States bonds against outperforming United States treasuries, mortgages and agencies.

Table 3: Investment on the Fixed-Interest Portfolio – Third 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	1 376	11 520	3 770	16 666
Dividend income from equities	-	-	-	-
Realized capital gains	-	(1 205)	823	(382)
Unrealized capital gains	-	1 791	1 262	3 053
Subtotal: Gross investment income	**1 376**	**12 106**	**5 855**	**19 337**
Securities lending income	-	184	-	184
Investment manager fees	-	(425)	(220)	(645)
Custody fees	(27)	(115)	(63)	(205)
Financial advisory and other investment management fees	-	(1)	-	(1)
Taxes	-	255	(2)	253
Other investment expenses	(19)	(29)	-	(48)
Net investment income	**1 330**	**11 975**	**5 570**	**18 875**
Gross Rate of Return (3rd Quarter)	**1.50**	**1.26**	**2.68**	**1.52**
Benchmark Rate of Return (3rd Quarter)	**1.22**	**1.11**	**3.05**	**1.45**
Out/(Under) Performance (3rd Quarter)	**0.28**	**0.15**	**(0.37)**	**0.07**

8. Table 4 shows the net income for the various sectors of the equities portfolio for the third quarter of 2000. North American equities were the only positively performing sub-portfolio, due to positive returns on medium and small capitalization equities. However, with the exception of European equities, all equity mandates showed an outperformance against their respective

benchmarks. The underperformance in European equities was attributable to sector allocation as well as stock selection.

Table 4: Investment Income on the Equities Portfolio—Third Quarter 2000
(USD '000 equivalent)

	Japanese Equities	Asian and Australasian Equities	Emerging Markets Equities	Currency Overlay	North American Equities	European Equities	Global Equities	Total Equities Portfolio
Interest from fixed-interest investments and bank accounts	-	89	40	107	4	58	48	346
Dividend income from equities	350	650	365	53	599	448	514	2 979
Realized capital gains	2 620	492	658	-	4 372	689	(1 334)	7 497
Unrealized capital gains	(15 152)	(11 317)	(10 558)	-	5 033	(8 867)	(3 998)	(44 859)
Subtotal: Gross investment income	**(12 182)**	**(10 086)**	**(9 495)**	**160**	**10 008**	**(7 672)**	**(4 770)**	**(34 037)**
Securities lending income	33	3	1	-	4	-	1	42
Investment manager fees	(179)	(161)	(300)	-	(349)	(163)	(237)	(1 389)
Custody fees	(17)	(54)	(164)	(6)	(66)	(22)	(120)	(449)
Financial advisory and other investment management fees	-	-	-	-	-	-	-	-
Taxes	-	(32)	(26)	-	-	(32)	(12)	(102)
Other investment expenses	-	2	5	(1)	-	-	(2)	4
Net investment income	**(12 345)**	**(10 328)**	**(9 979)**	**153**	**9 597**	**(7 889)**	**(5 140)**	**(35 931)**
Gross Rate of Return (3rd Quarter)	**(7.33)**	**(9.05)**	**(9.33)**	**N/A**	**4.37**	**(3.06)**	**(1.72)**	**(3.24)**
Benchmark Rate of Return (3rd Quarter)	**(7.41)**	**(9.93)**	**(9.73)**	**N/A**	**3.28**	**(0.89)**	**(3.02)**	**(3.52)**
Out/(Under) Performance (3rd Quarter)	**0.08**	**0.88**	**0.40**	**N/A**	**1.09**	**(2.17)**	**1.30**	**0.28**

IV. PERFORMANCE

9. The performance of the various mandates of the investment portfolio is measured against pre-assigned independent benchmarks, indicating the return that would be expected through passive management of defined sectors of the market. The principal indices used are the J. P. Morgan Global Government Bonds Index and the Morgan Stanley Capitalization Index for Global Equities.

10. As shown in Table 5, there was an overall negative rate of return of 73 basis points in the third quarter, reflecting an outperformance of 16 basis points against the benchmark, and a positive rate of return for the first nine months of 2000 of 17 basis points, reflecting an outperformance of 8 basis points.

Table 5: Overall Performance Compared with Benchmarks – Third Quarter 2000

	3rd Quarter 2000			Year to Date 2000		
	Rate of Return %		Out/(Under)	Rate of Return %		Out/(Under)
Portfolio	**Portfolio**	**Benchmark**	**Performance**	**Portfolio**	**Benchmark**	**Performance**
Internally managed	1.50	1.22	0.28	3.84	3.45	0.39
Global government bonds	1.26	1.11	0.15	4.35	4.41	(0.06)
Diversified fixed-interest	2.68	3.05	(0.37)	6.08	7.10	(1.02)
Equities	(3.24)	(3.52)	0.28	(5.02)	(5.39)	0.37
Overall gross rate of return	(0.63)	(0.79)	0.16	0.53	0.45	0.08
Less expenses	(0.10)	(0.10)	0.00	(0.36)	(0.36)	0.00
Overall net rate of return	(0.73)	(0.89)	0.16	0.17	0.09	0.08

11. Details of the performance of the nine-month period to 30 September 2000 are presented in the form of a graph in the Annex.

V. CURRENCY COMPOSITION

12. The majority of IFAD’s commitments are expressed in SDRs. Consequently, IFAD’s overall assets are maintained in such a way as to ensure that, to the extent possible, commitments for undisbursed loans and grants denominated in SDRs are matched by assets denominated in the currencies and in the ratios of the SDR valuation basket. Similarly, the general reserve and commitments for grants denominated in United States dollars are matched by assets denominated in the same currency.

13. Every five years, the Executive Board of the International Monetary Fund (IMF) reviews the SDR valuation basket in order to determine which currencies should be part of the basket and which percentage weight should apply to each currency at the date of the reweighting of the basket.

14. The last such review was in September 1995, and weights determined for each of the five component currencies were applied to the reweighting of the valuation basket on 1 January 1996. The units of each currency that constitutes the basket for the five-year period 1 January 1996 to 31 December 2000 were determined on the basis of the agreed weights and market exchange rates as at 31 December 1995.

15. With its introduction on 1 January 1999, the Euro has been included in the valuation basket as the currency of both France and Germany. The units applicable, together with their weights as at 31 December 1999 and 30 September 2000, are shown in Table 6.

Table 6: Units and Weights Applicable to the SDR Valuation Basket

	31 December 1999		30 September 2000	
Currency	**Units**	**Percentage Weight**	**Units**	**Percentage Weight**
USD	0.5821	42.4	0.5821	44.9
EUR	0.3519	25.8	0.3519	23.8
JPY	27.200	19.4	27.200	19.4
GBP	0.105	12.5	0.105	11.9
		100.0		100.0

16. As at 30 September 2000, assets in the form of cash, investments, promissory notes and amounts receivable from contributors under the Fourth Replenishment amounted to USD 2 532 533 000 equivalent (31 December 1999 – USD 2 821 336 000 equivalent), as indicated in Table 7 below:

Table 7: Currency Composition of Assets
(USD ’000 equivalent)

	Cash and Investments	Promissory Notes	Amounts Receivable from Contributors	Total
USD	884 704	91 716	28 100	1 004 520
EUR	388 179	75 093	23 960	487 232
JPY	354 711	50 597	-	405 308
GBP	248 136	24 155	-	272 291
Other	273 034	90 148	-	363 182
Total	**2 148 764**	**331 709**	**52 060**	**2 532 533**

17. Holdings of assets denominated in currencies not included in the SDR valuation basket amounted to USD 363 182 000 at 30 September 2000 (1999 – USD 449 154 000 equivalent). These are allocated to currency groups, as indicated in Table 8.

Table 8: Allocation of Assets to Currency Groups

(USD '000 equivalent)

Currency Group	Currencies Included in SDR Basket	Currencies Subject to Overlay Arrangements	European Currencies Not Included in the SDR Valuation Basket	Other Currencies Not Included in the SDR Valuation Basket	Non-Convertible Currencies	Total Currencies Per Group
USD	1 004 520	93 866	-	127 919	2 212	1 228 517
EUR	487 232	-	139 185	-	-	626 417
JPY	405 308	-	-	-	-	405 308
GBP	272 291	-	-	-	-	272 291
	2 169 351	93 866	139 185	127 919	2 212	2 532 533

18. The alignment of the assets by currency group against the SDR valuation basket at 30 September 2000 is shown in Table 9. The balance of the General Reserve at 30 September 2000 and commitment for grants denominated in United States dollars at 30 September 2000 amounted to USD 95 000 000 and USD 59 809 000, respectively.

Table 9: Alignment of Assets Per Currency Group with the Currency Composition of the SDR Valuation Basket at 30 September 2000

(USD '000 equivalent)

Currency Group	Amount per Currency Group	Less: Commitment Denominated in USD	Net Assets per Currency Group	Net Assets %	Compare SDR Weights % 30.09.00	Compare SDR Weights Effective 01.01.01
USD	1 228 517	(154 809)	1 073 708	45.2	44.9	45.0
EUR	626 417	-	626 417	26.3	23.8	29.0
JPY	405 308	-	405 308	17.0	19.4	15.0
GBP	272 291	-	272 291	11.5	11.9	11.0
	2 532 533	(154 809)	2 377 724	100.0	100.0	100.0

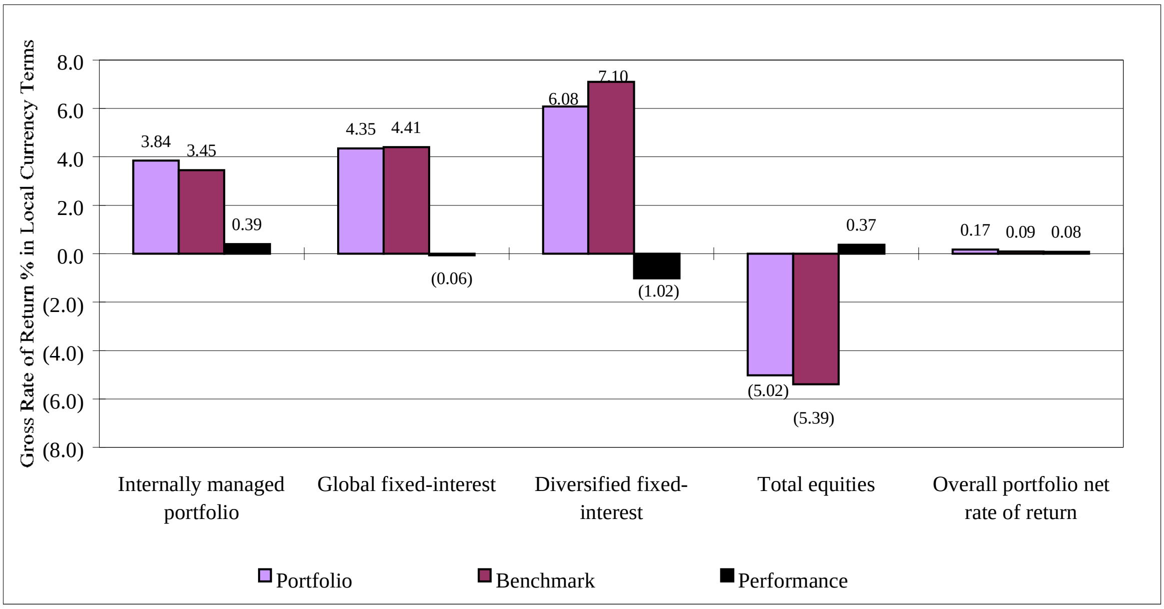
19. As at 30 September 2000, there were shortfalls in currency group holdings of Japanese Yen and Pounds Sterling, and currency group excess holdings of United States dollars and Euros. The shortfall in holdings of Japanese Yen reflects the aggregate, unhedged, underweight position for bonds denominated in Japanese Yen held in the global government bonds portfolio.

20. The International Monetary Fund has decided to reweight the four currencies included in the SDR valuation basket with effect from 1 January 2001, as shown in the last column in Table 9 above. This will entail a further reduction in holdings of Japanese Yen and an increase in holdings of Euro, which will be effected at the beginning of 2001.

ANNEX I

PERFORMANCE YEAR TO DATE

OVERALL PORTFOLIO



EQUITIES PORTFOLIO