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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

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REPORT ON IFAD'S INVESTMENT PORTFOLIO FOR 2000

I. INTRODUCTION

1. The following report on IFAD's investment portfolio covers the year ending 31 December 2000 and includes comparative figures for the year ending 31 December 1999. In addition, Annex XXIII includes a report on the performance of the investment portfolio during the fourth quarter of 2000.

II. HIGHLIGHTS

2. Investments in 2000 were influenced by a correction in equities and especially in technology-related stocks, which had outperformed significantly in 1999 and in the beginning of 2000. Towards the end of the year there were growing signs of an economic slowdown, particularly in the United States. This development favoured government bonds, as expectations of cuts in interest rates generally increased.

3. IFAD's fixed-interest portfolio was clearly favoured by the economic conditions and achieved a rate of return of 8.37% in 2000, slightly underperforming its benchmark by some 12 basis points.

4. IFAD's equities investments, on the other hand, were negatively affected by the economic conditions and returned –13.24%, reflecting an underperformance of 71 basis points against the benchmark.

5. In aggregate, net investment income amounted to a loss of USD 47 850 000 (excluding income from Supplementary Funds amounting to USD 884 000, as described in paragraph 42), representing an average rate of return at –2.25% and an average underperformance of 43 basis points against the benchmark. This represents a decrease in investment income and in the rate of return compared to previous years. It also means that IFAD's target of achieving an average real rate of return of 5.0% or more over three-year rolling periods was not met in the most recent three-year rolling period, i.e. 1998-2000, in which the average real rate of return was 3.0%.

6. The amount of the investment portfolio decreased from USD 2 327 402 000 equivalent at the end of 1999 to USD 2 068 191 000 equivalent at the end of 2000. The decrease was due to negative

investment income, negative exchange movements resulting from the appreciation of the United States dollar against other currencies and other net outflows.

7. The diversification programme, which had commenced in 1997, proceeded with the appointment of two external investment managers for a European small-capitalization equities mandate amounting to USD 60 million, and with the funding of equities mandates in the amount of USD 323 519 000 equivalent. The asset allocation targets for the overall portfolio were reached in the third quarter; IFAD's investment portfolio is now fully diversified and, in principle, IFAD may now draw on earnings of all sectors of the portfolio to cover disbursements for loans, grants and administrative expenses.

III. INVESTMENT CONDITIONS AND STRATEGY

8. This section reviews the economic and investment environment prevailing in 2000.

A. Economic Background

Gross Domestic Product

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

10. In 1999, the United States economy grew by 4.2%, and growth continued strongly into 2000 at an estimated annual rate of 5.0%. Strong consumer and business spending fuelled growth at the beginning of 2000, but in the last quarter growth slowed to its slowest pace in more than five years as the growth in consumer spending cooled and business spending fell. The significant slowdown in growth (forecast 2001, 1.4%) is largely explained by the tighter monetary conditions, higher energy prices and the tighter financial conditions for riskier borrowers. There is also a risk of falling consumer spending, considering the deteriorating consumer confidence, declining equity prices and weakening labour markets.

11. After growing 0.3% in 1999, the Japanese economy grew by an estimated 1.7% in 2000. Growth is expected to slow again (forecast 2001, approximately 0.7%) as the main supporters of growth, business investments and manufacturing are becoming affected by the slowdown in the United States. The current, record-high unemployment rate does not encourage consumer spending and the Government's support packages are being constrained by the rising national debt. However, there seems to be more consensus for structural reforms in the future.

12. In the euro-zone, the economy grew by 2.4% in 1999 and by an estimated 3.4% in 2000, supported by falling unemployment, growing consumer confidence and the weakness of the currency. Tighter monetary policy and higher energy prices had a slowing impact during the second half of the year. The slowdown in the United States, together with possible impact from an aggravated livestock crisis, is expected to restrain growth (forecast 2001, 2.3%), but there are positively offsetting factors from high consumer confidence, fiscal stimulus and the still relatively loose monetary conditions.

13. In the United Kingdom, the economy grew by 2.1% in 1999 and by an estimated 3.0% in 2000 (forecast 2001, 2.6%). Looser fiscal policies together with record-high employment are expected to maintain the strong domestic demand even though exports are likely to be affected by the external slowdown.

14. The global economy grew by 2.8% in 1999 and by an estimated 4.0% in 2000. The Latin American economies grew by 0.2% in 1999, but accelerated to an estimated 3.9% in 2000 (forecast

2001, 3.2%). Asia's emerging economies grew by 6.3% in 1999 and by an estimated 7.4% in 2000 (forecast 2001, 5.1%). Global growth forecasts have recently been cut (forecast 2001, 2.1%) due to the slowdown, especially in the United States, but also due to global factors such as monetary tightening, higher energy prices, falling equity prices and tighter financial conditions.

Inflation

15. Annex II shows the inflation figures for the countries whose currencies are included in the SDR valuation basket.

16. Higher energy prices continued to affect inflation rates in 2000, especially in developed economies. Food prices picked up during the year and especially in the euro-zone. Also core inflation (excluding food and energy prices) rose notably in the United States and the euro-zone, but the pressures may abate in 2001 with less tight labour markets in the United States and dampening of external inflation pressures in the euro-zone due to a stronger euro.

17. In the United Kingdom, inflation also rose in 2000, but it remained relatively subdued considering the record-tight labour markets, the loosening fiscal policy and the depreciation of the pound sterling in 2000. Inflation outlooks are relatively benign, as the tight labour markets have not had a significant impact on earnings.

18. In Japan, prices fell for a second year in 2000. The central bank has stated that it will pay closer attention to deflationary pressures caused by weakening demand. Earlier price declines were largely attributed to supply-side adjustments.

19. Overall global inflation fell slightly in 2000, supported by a further decrease in inflation rates in emerging economies; for example, the inflation rate in Latin America dropped from 8.1% p.a. in 1999 to 7.6% p.a. in 2000, and further decreases are expected in 2001.

Labour-Market Development

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

21. The greatest improvement in labour markets took place in the euro-zone and this trend is forecast to continue. The unemployment rates in both the United States and the United Kingdom were at historic lows in 2000. The economic slowdown in the United States is forecast to lead to a slight increase in unemployment. In the United Kingdom, labour markets are expected to remain tight. In Japan, unemployment was at a record high in 2000, and current forecasts indicate only small improvements.

Monetary Policies

22. Annex IV shows the evolution of central bank and government-controlled interest rates for countries whose currencies are included in the SDR valuation basket.

23. The United States Federal Reserve Bank raised the overnight lending rate twice in the first quarter, by 25 basis points each time, and a third time, by 50 basis points, in May as a result of strong economic data and the threat of rising inflation. During the second half year, the Federal Reserve kept rates unchanged, but in December it moved to an 'easing bias', declaring that the risks of economic weakness exceed the risks of inflation in the foreseeable future.

24. The Bank of Japan raised its official discount rate to 0.25% in August on emerging signs of economic recovery. At the end of the year, there were renewed pressures to return to the earlier zero-interest-rate policy.

25. In 2000, the European Central Bank moved from a stimulating monetary policy to a more restrictive policy in order to prevent inflation as the economy accelerated and to support the currency. The official overnight rate was increased gradually in each quarter from 3.00% to 4.75% at year-end.

26. The Bank of England raised the bank rate twice in the first quarter, each time by 25 basis points, to 6.00% due to rising inflation risks from strong domestic demand and tight labour markets.

Exchange Rates

27. Annex V illustrates the end-of-the-month exchange rates for the United States dollar against the four currencies in the SDR valuation basket.

28. The United States dollar appreciated significantly against virtually all currencies in 2000, supported by the strength of the economy. The slowdown in the United States economy towards the end of 2000 helped the euro and the pound sterling recover somewhat, while the Japanese yen declined further.

Fiscal Policy

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

30. In the United States, the budget surplus increased in 2000 and is estimated to fall somewhat in 2001. Most euro countries showed a budget surplus in 2000, but surpluses were increased by receipts from auctions of telecommunication licences. Similarly, the budget surplus in the United Kingdom was increased by licence receipts, and the budget balance is forecast to decline in coming years. After the significant increase in Japan's deficit in 1999, the deficit decreased somewhat in 2000 and the trend is forecast to continue gradually.

B. Financial Market Background

31. Annex VII shows the evolution of short- and long-term interest rates for the countries whose currencies are included in the SDR valuation basket. Long-term interest rates fell strongly in the United States during the year, first, as a reaction to the decreasing bond supply due to the United States Treasury's buy-back programme of long-dated government bonds and, later on, as evidence of an economic slowdown and the prospects for future interest rate cuts mounted. Also in the euro-zone and the United Kingdom, long-term interest rates fell on signs of moderating growth. In the United Kingdom, the lack of supply of long-term bonds additionally contributed to falling rates. Although already at a low level, Japanese long-term interest rates also fell, largely due to strong domestic demand for bonds.

32. Short-term interest rates generally rose during the first three quarters due to monetary tightening and in anticipation of future tightening. Towards the end of the year, short-term rates generally fell somewhat as future monetary easing was discounted.

33. 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 and capital gains and losses, in line with market practice. All bond markets posted strong positive returns, as indicated by

the development of long-term interest rates. Especially the dollar-bloc countries, with the United States followed by Australia and Canada, outperformed the overall bond markets.

34. 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 as well as mortgage, corporate and emerging-markets bonds denominated in United States dollars, and is used as the benchmark for IFAD's diversified fixed-interest portfolio. The chart shows that the dollar-based diversified fixed-interest investments significantly outperformed the government bond index during the second half of the year. This was due to a flight to high-quality credits from equities and the prospect of a new easing bias in the monetary policy of the United States.

35. 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. After having performed mostly positively during the first quarter of 2000, global equity markets generally performed negatively during the rest of the year. On a sector basis, there was a strong correction especially in technology-related stocks, which had outperformed significantly during 1999 and the beginning of 2000. During the second half of the year, several major technology companies and also some companies from other sectors issued profit warnings, as there were more signs of an economic slowdown. On a geographical basis, the markets that showed the strongest outperformance in 1999, i.e. Japan, Australasia and emerging markets, experienced the strongest declines. Asian equity markets in particular were affected by the correction in technology stocks.

C. Market Outlook

36. As noted in paragraph 10 above, there has been a significant downturn in growth in the United States economy, which has also had a negative impact particularly on the Japanese and emerging market economies.

37. The Federal Reserve Bank has tried to stimulate growth with three successive cuts of 50 basis points in the Federal Funds rate on 3 January, 30 January and 20 March 2001. The markets expect that there will be further cuts, which will bring interest rates down to at least 4.00% p.a. These cuts are expected to benefit the United States bond market and to lead to higher growth in the economy in the second half of this year.

38. There was a rally in equity markets in January 2001, but it lost momentum due to lower expectations for corporate earnings particularly in the technology sector. The returns on equities were negative in February and March 2001.

39. The expectation of the market is that there may be further downward pressure on equity prices, until there are clear indications of improvement in the United States economy. The price-earnings ratios of equities have fallen close to historic averages and are likely to attract investors as bond yields fall.

40. The prospects for growth in 2001 seem better in the euro-zone and the United Kingdom than in the United States. There is also scope for cuts in interest rates; this may lead to improvements in the equities markets, which have been disappointing so far this year.

41. The Bank of Japan has pushed short-term interest rates back to near zero in an attempt to revive economic growth. These measures and the possible improvements in the United States economy later in the year, which would help to stimulate the export sector, may improve equity markets and attract foreign investors back to Japan.

IV. RATE OF RETURN AND INVESTMENT STRATEGY

Overall Portfolio

42. According to IFAD's financial statements for 2000, investment income amounted to a loss of USD 46 966 000 equivalent. This amount takes into account income from Supplementary Funds relating to prior years amounting to USD 884 000 (1999 – USD 1 726 000).

43. Excluding the income deriving from Supplementary Funds, net investment income in 2000 amounted to a loss of USD 47 850 000 equivalent (1999, USD 194 469 000 equivalent). 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 5 and 9 for fixed-interest and equities investments respectively.

Table 1: Investment Income
(USD '000 equivalent)

	2000					
	Fixed-Interest Portfolio	**Equity Portfolio**	**Overall Portfolio**	**1999 Overall Portfolio**	**1998 Overall Portfolio**	**1997 Overall Portfolio**
Interest from fixed-interest investments and bank accounts	67 228	1 591	68 819	90 253	112 668	128 779
Dividend income from equities	-	11 760	11 760	8 684	5 654	94
Realized capital gains/(losses)	(28 249)	36 513	8 264	3 861	40 846	21 535
Unrealized capital gains/(losses)	60 208	(185 932)	(125 724)	101 272	36 111	19 657
Subtotal: Gross investment income/(loss)	**99 187**	**(136 068)**	**(36 881)**	**204 070**	**195 279**	**170 065**
Securities lending income	326	114	440	539	905	463
Investment manager fees	(2 694)	(5 299)	(7 993)	(7 192)	(5 660)	(3 708)
Custody fees and transaction costs	(753)	(1 828)	(2 581)	(1 870)	(1 469)	(1 066)
Financial advisory and other investment management fees	(295)	(220)	(515)	(508)	(610)	(683)
Taxes	254	(421)	(167)	(286)	(129)	(1 131)
Other investment expenses	(131)	(22)	(153)	(284)	(417)	-
Net investment income/(loss)	**95 894**	**(143 744)**	**(47 850)**	**194 469**	**187 899**	**163 940**

44. Movements affecting the overall portfolio during 2000 are shown in Table 2. The opening balances have been restated in line with Note 2 to the Financial Statements for the year 2000. The closing balance as of 31 December 1999, which amounted to USD 2 331 030 000, has been restated as USD 2 327 402 000, representing a decrease of USD 3 628 000 mainly due to provisions for after-service medical coverage. During the year, USD 323 519 000 equivalent was transferred in tranches from the fixed-interest portfolio to the equities portfolio. Further details of movements in cash and investments are provided in Tables 6 and 10 for fixed-interest and equity investments respectively.

45. Annex XI includes a comparison of gross income for the major portions of the portfolio since the start of the diversification process in 1997, indicating the ratio of income that has been earned through capital gains, interest income and dividends. This indicates that, over a four-year period, capital gains for the fixed-interest portfolio have amounted to USD 64 866 000, while capital gains for the equities portfolio have amounted to USD 40 956 000, representing in aggregate some 19.9% of overall gross investment income for the period.

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

	Fixed-Interest Portfolio	Equities Portfolio	Overall Portfolio
Opening balance (31 December 1999)[1)]	1 532 276	795 126	2 327 402
Transfers between portfolios due to allocation	(323 519)	323 519	-
Transfers between portfolios due to expenses	(7 312)	7 312	-
Other net flows	(94 137)	-	(94 137)
Gross investment income	99 187	(136 068)	(36 881)
Securities lending income	326	114	440
Fees, charges and taxes	(3 619)	(7 790)	(11 409)
Movements on exchange	(75 835)	(41 389)	(117 224)
Closing balance (31 December 2000)	1 127 367	940 824	2 068 191

1) Restated – see paragraph 44.

46. After taking investment expenses into account, including fees for custody and investment management, the overall rate of return of the portfolio in 2000 was –2.25% (1999 – 8.78%), net of movements on exchange. Returns in 2000 were affected by negative performance in equities markets during the three last quarters of the year. Fixed-income markets contributed positively in all quarters of the year.

47. The performance of the various mandates of the investment portfolio is measured against pre-assigned 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. It shows an overall underperformance of 43 basis points in 2000 (1999 – outperformance of 66 basis points). This information is presented graphically in the first chart in Annex XII.

Table 3: Overall Performance Compared with Benchmarks – Year 2000

	Rate of Return%		Out/(Under) Performance
Portfolio	**Portfolio**	**Benchmark**	
Total fixed interest	8.37	8.49	(0.12)
Total equities	(13.24)	(12.53)	(0.71)
Overall portfolio gross rate of return	(1.76)	(1.33)	(0.43)
Less expenses	(0.49)	(0.49)	0.00
Overall portfolio net rate of return	(2.25)	(1.82)	(0.43)
Cf. 1999 overall portfolio net rate of return	8.78	8.12	0.66

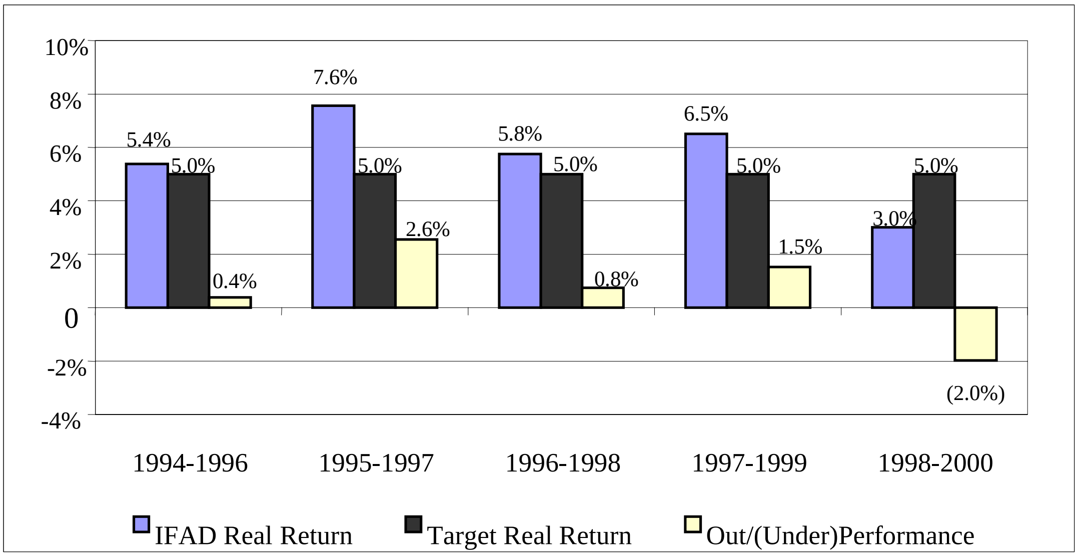
48. The overall performance of the portfolio is also compared with IFAD's target of achieving an average real rate of return of 5.0% or more over three-year rolling periods. Table 4 shows the real rate of return of the portfolio from 1994 onwards, and indicates that the target was not met in the most recent three-year rolling period, i.e. 1998-2000, in which the average real rate of return was 3.0%.

Table 4: Real Returns on IFAD's Overall Portfolio

	IFAD Nominal Rate of Return	SDR Inflation Rate	IFAD Real Rate of Return	Average Three-Year Real Rate of Return
2000	(2.2%)	2.3%	(4.5%)	3.0%
1999	8.7%	1.8%	6.9%	6.5%
1998	8.5%	1.4%	7.1%	5.8%
1997	7.5%	2.0%	5.5%	7.6%
1996	6.7%	2.0%	4.7%	5.4%
1995	14.6%	1.9%	12.7%	Na
1994	1.3%	2.1%	(0.8%)	Na

49. A comparison between actual performance and the target is shown graphically in Figure 1.

Figure 1: Average Three-Year Real Returns Compared to Target Returns



Fixed-Interest Portfolio

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

51. In aggregate, the gain from fixed-interest investments in 2000 amounted to USD 99 187 000 equivalent, as shown in Table 5. All sections of the fixed-interest portfolio contributed positively to income.

Table 5: Investment Income on Fixed-Interest Portfolio – Year 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	3 787	48 835	14 606	67 228
Dividend income from equities	-	-	-	-
Realized capital gains	-	(29 030)	781	(28 249)
Unrealized capital gains	-	56 792	3 416	60 208
Subtotal: Gross investment income	**3 787**	**76 597**	**18 803**	**99 187**
Securities lending income	-	326	-	326
Investment manager fees	-	(1 836)	(858)	(2 694)
Custody fees	(85)	(420)	(248)	(753)
Financial advisory and other investment management fees	-	(243)	(52)	(295)
Taxes	-	253	1	254
Other investment expenses	(48)	(52)	(31)	(131)
Net investment income	**3 654**	**74 625**	**17 615**	**95 894**

52. Movements affecting the total fixed-interest portfolio in 2000 are shown in Table 6. A total of USD 369 681 000 was transferred in tranches from the global fixed-interest portfolio, while a total of USD 25 000 000 was transferred from the diversified fixed-interest portfolio. Of that, USD 323 519 000 was transferred to the equities portfolio to fund new mandates. The balance of USD 71 162 000 was used to cover administrative expenses, loans and grant disbursements, and the payment of investment management fees and other charges.

Table 6: Movements in the Fixed-Interest Portfolio – Year 2000
(USD '000 equivalent)

	Internally Managed Portfolio	Global Fixed-Interest Portfolio	Diversified Fixed-Interest Portfolio	Total Fixed-Interest Portfolio
Opening balance (31 December 1999)	66 651	1 254 266	211 359	1 532 276
Transfers between portfolios due to allocation	71 162	(369 681)	(25 000)	(323 519)
Transfers between portfolios due to expenses	(10 388)	1 918	1 158	(7 312)
Other net flows	(94 137)	-	-	(94 137)
Gross investment income	3 787	76 597	18 803	99 187
Securities lending income	-	326	-	326
Fees, charges and taxes	(133)	(2 298)	(1 188)	(3 619)
Movements on exchange	(3 040)	(73 204)	409	(75 835)
Closing balance (31 December 2000)	33 902	887 924	205 541	1 127 367

53. The performance of the fixed-interest portfolio by type of mandate is presented in Table 7. This information is presented graphically in the first chart in Annex XIII.

Table 7: Fixed-Interest Performance Compared With Benchmarks – Year 2000

	Rate of Return%		Out/(Under) Performance
Portfolio	**Portfolio**	**Benchmark**	
Internally managed portfolio	5.13	4.71	0.42
Global fixed-interest	8.56	8.11	0.45
Diversified fixed-interest	8.98	11.60	(2.62)
Total fixed-interest	8.37	8.49	(0.12)
Cf. 1999 total fixed-interest	(1.85)	(0.81)	(1.04)

54. As indicated in Table 7, the overall return for the fixed-interest portfolio was 8.37%. This is compared to the aggregate benchmark return of 8.49%, resulting in an underperformance of 12 basis points for the total fixed-interest portfolio.

55. The global fixed-interest portfolio outperformed its benchmark by 45 basis points. A performance attribution analysis for the global fixed-interest portfolio is shown in Annex XIV for the total year and by quarter. In summary:

- Some 90 basis points of outperformance were due to the managers' country allocation. Managers generally overweighted the best-performing bond market, the United States, and underweighted the weakest-performing market, Japan.
- Some 20 basis points of negative impact arose from bond selection and duration, as managers generally maintained a short duration in the beginning of the year, when long-term interest rates fell, especially in the United States. The portfolio's overall duration, compared to benchmark, is shown in Table 8.
- Some 20 basis points of negative impact remained unattributed, mainly due to timing effects.

56. The diversified fixed-interest portfolio underperformed its benchmark by 262 basis points in 2000. A performance attribution analysis for the diversified fixed-interest portfolio is shown in Annex XV for the total year and by quarter. In summary:

- Some 380 basis points of underperformance were mainly due to the mangers' underweight position in United States government bonds, which outperformed non-United States government bonds and corporate bonds.
- Some 230 basis points of underperformance were due to the managers' bond selection, including impact from duration and credit quality. The underperformance arose mainly from corporate bonds and mortgages.
- Some 350 basis points of positive impact remained unattributed, mainly due to timing effects and cash holdings.

Table 8: Duration of the Global Fixed-Interest and the Diversified Fixed-Interest Portfolio
(Years)

	31 December 2000	**31 December 1999**
Global fixed-interest portfolio	6.33	5.30
Global fixed-interest benchmark	6.16	5.84
Diversified fixed-interest portfolio	4.54	5.21
Diversified fixed-interest benchmark	4.86	5.09

Equities Portfolio

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

58. The aggregate net income attributable to the equities portfolio in 2000 amounted to a loss of USD 143 744 000 equivalent. The income by sub-portfolio is shown in Table 9.

Table 9: Investment Income on Equities – Year 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	-	263	474	602	28	114	110	1 591
Dividend income from equities	931	2 331	1 959	-	2 456	2 302	1 781	11 760
Realized capital gains	23 020	3 122	4 589	-	8 051	7 216	(9 485)	36 513
Unrealized capital gains	(60 265)	(23 547)	(33 563)	-	(34 127)	(23 302)	(11 128)	(185 932)
Subtotal: Gross investment income	**(36 314)**	**(17 831)**	**(26 541)**	**602**	**(23 592)**	**(13 670)**	**(18 722)**	**(136 068)**
Securities lending income	78	10	4	-	18	1	3	114
Investment manager fees	(727)	(649)	(1 219)	-	(1 243)	(693)	(768)	(5 299)
Custody fees	(63)	(195)	(773)	(25)	(263)	(147)	(362)	(1 828)
Financial advisory and other investment management fees	(39)	(26)	(24)	(3)	(55)	(38)	(35)	(220)
Taxes	-	(77)	(102)	-	5	(185)	(62)	(421)
Other investment expenses	-	2	(16)	-	1	(2)	(7)	(22)
Net investment income	**(37 065)**	**(18 766)**	**(28 671)**	**574**	**(25 129)**	**(14 734)**	**(19 953)**	**(143 744)**

59. Movements affecting the equities portfolio in 2000 are shown in Table 10. During the year, a total amount of USD 323 519 000 was transferred from the fixed-interest portfolio to fund global equities mandates, North American small-capitalization equities mandates and European small-capitalization equities mandates.

Table 10: Movements in the Equities Portfolio – Year 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 (31 December 1999)	177 606	120 632	122 115	9 866	220 374	144 533	-	795 126
Transfers between portfolios due to allocation	-	-	-	-	20 000	60 000	243 519	323 519
Transfers between portfolios due to expenses	751	860	1 983	28	1 537	966	1 187	7 312
Gross investment income	(36 314)	(17 831)	(26 541)	602	(23 592)	(13 670)	(18 722)	(136 068)
Securities lending income	78	10	4	-	18	1	3	114
Fees, charges and taxes	(829)	(945)	(2 134)	(28)	(1 555)	(1 065)	(1 234)	(7 790)
Movements on exchange	(14 229)	(7 004)	(12 626)	(1 086)	-	(3 667)	(2 777)	(41 389)
Closing balance (31 December 2000)	127 063	95 722	82 801	9 382	216 782	187 098	221 976	940 824

60. The performance of the equities portfolio by type of mandate is shown in Table 11. This information is presented graphically in the first chart in Annex XVI.

Table 11: Equities Performance Compared with Benchmarks – Year 2000

	Rate of Return%		Out/(Under) Performance
Portfolio	**Portfolio**	**Benchmark**	
Japanese equities	(21.00)	(25.00)	4.00
Asian and Australasian equities (excluding Japan)	(15.20)	(21.75)	6.55
Emerging-markets equities	(22.67)	(22.29)	(0.38)
North American equities (partly funded 5-9/2000)	(9.46)	(2.09)	(7.37)
European equities (partly funded 9/2000)	(5.49)	(4.41)	(1.08)
Global equities (funded 2-8/2000)	(6.85)	(7.51)	0.66
Total equities	(13.24)	(12.53)	(0.71)
Cf. 1999 total equities	49.71	44.07	5.64

61. As indicated in Table 11, the overall return for the equity portfolio was negative, -13.24%. This is compared to the aggregate benchmark return of –12.53%, resulting in an underperformance of 71 basis points for the total equities portfolio. The Japanese, Asian, Australasian and the global equities mandates outperformed their benchmarks. The emerging-markets, North American and European equities mandates underperformed. A performance attribution analysis for the different equity mandates is shown in Annex XVII by quarter and aggregated for year 2000. In summary:

- The Japanese equities mandate outperformed its benchmark in all quarters and benefited especially from strong stock selection in otherwise poorly performing sectors such as services, finance and commerce.
- The Asia and Australasian equities mandate benefited strongly from both country allocation and stock selection. Being overweight in Hong Kong while being underweight in China proved especially positive together with fairly large holdings of cash.
- The emerging-markets mandate underperformed on the basis of stock selection, which was negative on several markets. However, country allocation had a positive, partly offsetting, impact.
- The North American mandate underperformed mainly in the fourth quarter. The main reason for the underperformance was a moderate, overall overweight in information technology together with negative stock selection in the same sector. The information technology sector was the weakest performing sector in 2000 and especially in the fourth quarter.
- The European equities mandate underperformed some 108 basis points during the year. The exact performance attribution was impacted by the funding of two mandates in the third quarter.
- The global equities mandate outperformed on the basis of positive country allocation in several countries during the year, although this was partly offset by negative stock selection.

Portfolio Performance Compared with Universe and Peer Group

62. Table 12 shows a comparison of the 2000 performance of IFAD’s externally managed mandates against a universe of investment managers provided by IFAD’s financial advisors. The comparison uses returns in United States dollars and includes an element of exchange gain and loss rather than local currency returns, which are used elsewhere in this report. The comparison is also of

an indicative nature, since all portfolios have their own specific investment guidelines, which do not match precisely the guidelines used by IFAD. As indicated in Table 12, two mandates of IFAD's investment portfolio showed an outperformance against both the universe as well as their own benchmarks – the Japanese and the Asian Australasian equities mandates. Three other mandates showed an underperformance against both the universe and their own benchmarks – emerging-markets equities, North American equities and global equities.

Table 12: Portfolio Performance Compared with Manager Universe for Year 2000

Type of Mandate	No. of Managers in Universe	Rate of Return % in USD terms[1)] Median Universe Performance	IFAD Investment Portfolio	IFAD Benchmark	IFAD Out/(Under) Performance Against Universe	IFAD Out/(Under) Performance Against Benchmark
Fixed-interest global	59	2.39	1.72	1.71	(0.67)	0.01
Fixed-interest diversified	53	(2.17)	9.23	11.59	11.40	(2.36)
Equities Japan	19	(29.80)	(28.46)	(32.74)	1.34	4.28
Equities Asia and Australasia (excl. Japan)	31	(26.72)	(20.65)	(27.52)	6.07	6.87
Equities emerging markets	72	(28.31)	(32.19)	(25.41)	(3.88)	(6.78)
Equities North America[2)]	1300	(3.11)	(9.46)	(2.09)	(6.35)	(7.37)
Equities Europe[3)]	41	(6.66)	(9.90)	(10.30)	(3.24)	0.40
Equities global [4)]	63	(3.60)	(8.82)	(8.80)	(5.22)	(0.02)
Aggregate[5)]	1638	(4.75)	(4.98)	(4.36)	(0.23)	(0.62)

1) The differences in returns for IFAD's investment portfolio and its benchmarks in this table and other tables in the report are due to movements on exchange rates.
2) Additional funding took place in May and September 2000.
3) Additional funding took place in February and August 2000.
4) Universe return is adjusted to 11 months in order to match IFAD's total investment period of 11 months in 2000. The universe global equities return for 12 months was –8.72%. In January 2000, the global equities benchmark return was –5.31%. The second tranche was funded in August 2000.
5) Includes the portion of the internally managed portfolio.

63. In 2000, according to data received from IFAD's financial advisors, based on returns for funds with assets in the range of USD 1 billion to 4 billion, the average estimated return for funds that held less than 5% of assets in venture capital, private equities and hedge funds was –2.7%. This is slightly lower than IFAD's return of –2.25% in 2000.

V. COMPOSITION OF THE PORTFOLIO

General

64. As of 31 December 2000, the Fund's investment portfolio amounted to USD 2 068 191 000 equivalent (31 December 1999 – USD 2 327 402 000 equivalent), excluding amounts subject to restriction provided by donors for participation in specific IFAD projects and activities. In 2000, prior to taking account of movements in exchange rates, the amount of the portfolio decreased by USD 141 987 000 equivalent (1999 – an increase of USD 113 031 000 equivalent). An analysis of cash flows is given in Annex XVIII and summarized in Table 13.

Table 13: Analysis of Cash Flows in the Overall Portfolio
(USD '000 equivalent)

	12 Months to 31 December 2000	12 Months to 31 December 1999[1)]
Opening balance	2 327 402	2 268 295
Net investment income	(47 850)	194 469
Other inflows	274 464	278 056
Outflows	(368 601)	(359 494)
Increase, prior to exchange movements	(141 987)	113 031
Exchange movements	(117 224)	(53 924)
Closing balance	2 068 191	2 327 402

[1)]Restated – see paragraph 44.

Composition of the Portfolio by Instrument

65. IFAD's portfolio is divided into fixed-interest and equities portfolios. Table 14 provides an analysis of the instruments found in each of the main sections of the investment portfolio, while a more detailed analysis of the fixed-interest portfolio is found in Annex XIX.

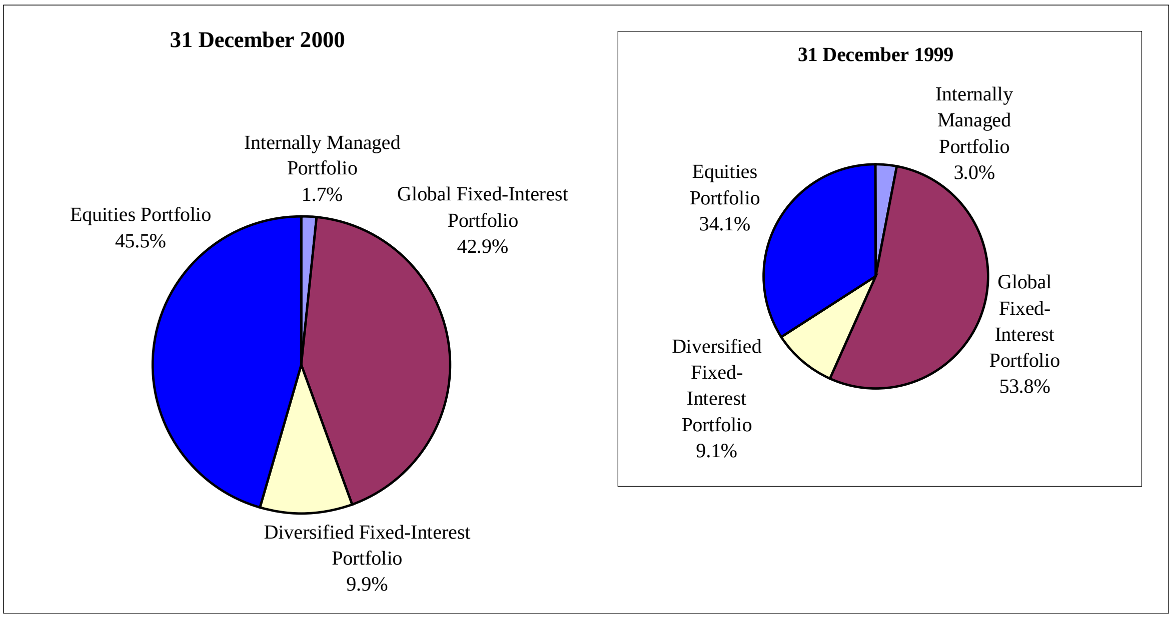
Table 14: Analysis of the Portfolio by Type of Mandate and by Instrument at 31 December 2000
(USD '000 equivalent)

Instruments	Total Fixed-Interest Portfolio 31.12.2000	Total Equities Portfolio 31.12.2000	Overall Portfolio 31.12.2000	Overall Portfolio 31.12.1999
Cash	27 991	32 158	60 149	68 261
Time deposits	174 535	28 980	203 515	171 868
Global government bonds	818 338	-	818 338	1 171 821
Emerging-markets bonds	35 428	-	35 428	35 182
Mortgage-backed securities	60 597	-	60 597	60 760
Asset-backed securities	6 927	-	6 927	2 999
Corporate bonds	57 761	-	57 761	70 041
Equities	-	882 420	882 420	770 369
Futures	47	-	47	48
Options	54	-	54	(30)
Open trades	(73 285)	(3 442)	(76 727)	(52 838)
Accrued interest income	18 227	11	18 238	27 437
Dividends receivable	-	697	697	577
Non-convertible currencies	747	-	747	907
Total	**1 127 367**	**940 824**	**2 068 191**	**2 327 402**
Actual allocation (%)	54.5	45.5	100.0	100.0
Policy allocation (%)	55.0	45.0	100.0	100.0
Difference in allocation (%)	**(0.5)**	**0.5**	**0.0**	**0.0**

66. An analysis of the portfolio by type of mandate is found in Figure 2. A major change during the course of the year 2000 was the increase in the equities portfolio from 34.1% of the overall portfolio

as at 31 December 1999 to 45.5% at 31 December 2000. This increase was due to transfers from the global fixed-interest portfolio as part of the diversification exercise.

Figure 2: Analysis of the Portfolio by Type of Mandate at 31 December 2000



Composition of the Portfolio by Currency

67. 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.

68. 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.

69. New units for each of the four currencies composing the valuation basket were determined on 29 December 2000, in such a way that the value of the SDR was precisely USD 1.30291 both in terms of the old and new units, which became effective on 1 January 2001.

70. The old and new baskets are presented in Table 15 showing the units applicable, and the percentage weights for each currency.

Table 15: Units and Weights Applicable to the SDR Valuation Basket

Currency	31 December 2000		1 January 2001	
	Units	Percentage Weight	Units	Percentage Weight
USD	0.5821	44.7	0.5770	44.3
EUR	0.3519	25.1	0.4260	30.4
JPY	27.2000	18.2	21.000	14.0
GBP	0.1050	12.0	0.0984	11.3
		100.0		100.0

71. As at 31 December 2000, assets in the form of cash, investments, promissory notes and amounts receivable from contributors under the Fourth Replenishment amounted to USD 2 442 485 000 equivalent (31 December 1999 – USD 2 821 336 000 equivalent), as indicated in Table 16 below:

Table 16: Currency Composition of Assets at 31 December 2000
(USD ’000 equivalent)

	Cash and Investments	Promissory Notes	Amounts Receivable from Contributors	Total
USD	807 235	89 734	30 850	927 819
EUR	460 903	88 949	-	549 852
JPY	308 916	47 492	-	356 408
GBP	252 680	24 517	-	277 197
Other	238 457	92 752	-	331 209
Total	**2 068 191**	**343 444**	**30 850**	**2 442 485**

72. Holdings of assets denominated in currencies not included in the SDR valuation basket amounted to USD 388 305 000 at 31 December 2000 (1999 – USD 449 154 000 equivalent). These are allocated to currency groups, as indicated in Table 17.

Table 17: Allocation of Assets to Currency Groups at 31 December 2000
(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	872 503	187 905	-	65 620	2 146	1 128 174
EUR	548 600	-	132 634	-	-	681 234
JPY	356 409	-	-	-	-	356 409
GBP	276 668	-	-	-	-	276 668
Total	**2 054 180**	**187 905**	**132 634**	**65 620**	**2 146**	**2 442 485**

73. The alignment of the assets by currency group against the old (31 December 2000) and the new (1 January 2001) SDR valuation baskets is shown in Table 18. The balance of the General Reserve at 31 December 2000 and commitment for grants denominated in United States dollars at 31 December 2000 amounted to USD 95 000 000 and USD 63 570 000 respectively.

Table 18: Alignment of Assets per Currency Group with the Currency Composition of the SDR Valuation Basket at 1 January 2001
(USD '000 equivalent)

Currency Group	Amount per Currency Group	Less: Commitment Denominated in USD	Net Assets per Currency Group	Net Assets%	Compare Old SDR Weights% 31.12.2000	Compare New SDR Weights% Effective 1.1.2001
USD	1 128 174	(158 570)	969 604	42.5	44.7	44.3
EUR	681 234	-	681 234	29.8	25.1	30.4
JPY	356 409	-	356 409	15.6	18.2	14.0
GBP	276 668	-	276 668	12.1	12.0	11.3
	2 442 485	(158 570)	2 283 915	100.0	100.0	100.0

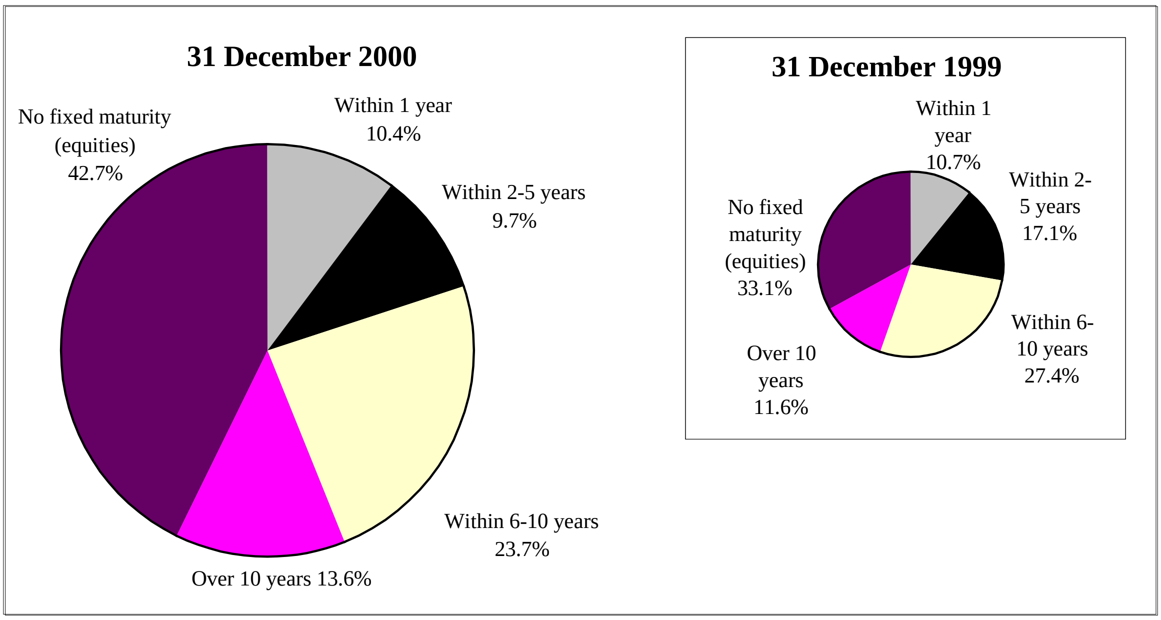
74. As at 1 January 2001, compared to the new SDR valuation basket, there were shortfalls in currency group holdings of United States dollars and Euros, and excess holdings of Japanese yen and pounds sterling.

75. In line with IFAD's policy and procedures for currency alignment, a rebalancing of the SDR reference currencies in the benchmark for the government bonds portfolio was effected from 1 February 2001.

Maturity of Investments

76. Annex XXI provides details of the composition of the portfolio by maturity as of 31 December 2000, while Figure 3 shows the maturity of the portfolio graphically. The average life to maturity at 31 December 2000 was nine years and nine months (31 December 1999 – nine years).

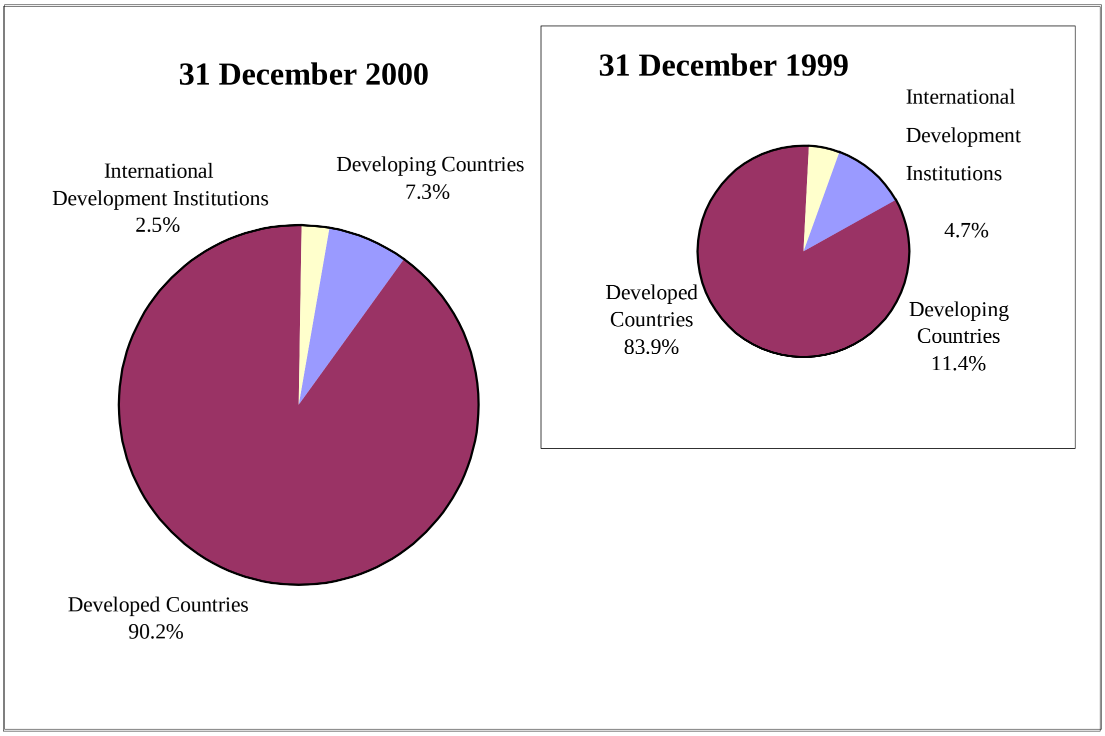
Figure 3: Maturity Structure of the Investment Portfolio



Diversification by Country

77. It is IFAD's practice to diversify its investments with respect to countries. IFAD invests in suitable instruments issued by eligible institutions in both developed and developing Member States, and in obligations issued by eligible development-related intergovernmental institutions. Annex XXII provides details by type of instrument and by region in the case of developing countries, while Figure 4 shows the overall diversification by Member States graphically. The percentage of investments in developing countries at 31 December 2000 shows a decrease compared to the previous year, due largely to capital losses in 2000 resulting from investments in emerging-markets equities.

Figure 4: Diversification by Country



VI. DIVERSIFICATION OF THE PORTFOLIO

78. The diversification programme was commenced in 1997 with the objective of increasing investment income by investing in asset classes that have been shown, over time, to produce higher returns than those in which IFAD had traditionally invested. The policy asset allocation of the portfolio involved moving some USD 200 million into diversified fixed-income mandates and some USD 1 000 million into equities mandates. The programme has involved a gradual shift in the composition of IFAD's investment portfolio from such fixed-interest investments as global government bonds and time deposits.

79. By the end of 1999, external investment managers had been appointed for mandates amounting to USD 1 140 million, of which some USD 760 million had been funded.

80. During the course of the first quarter of 2000, two global government bond portfolios were liquidated for an amount of USD 193.4 million equivalent. The proceeds were used partly for the funding of the first tranche of the global equities mandate in the amount of USD 126 191 000

equivalent, which took place on 1 February 2000, and partly to provide liquidity for loan and grants disbursements.

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

82. In the same month, the process for selecting external investment managers for a European small-capitalization equities mandate amounting to USD 60 million equivalent was completed, resulting in the appointment of two external investment managers. All mandates under the diversification programme had now been assigned to managers.

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

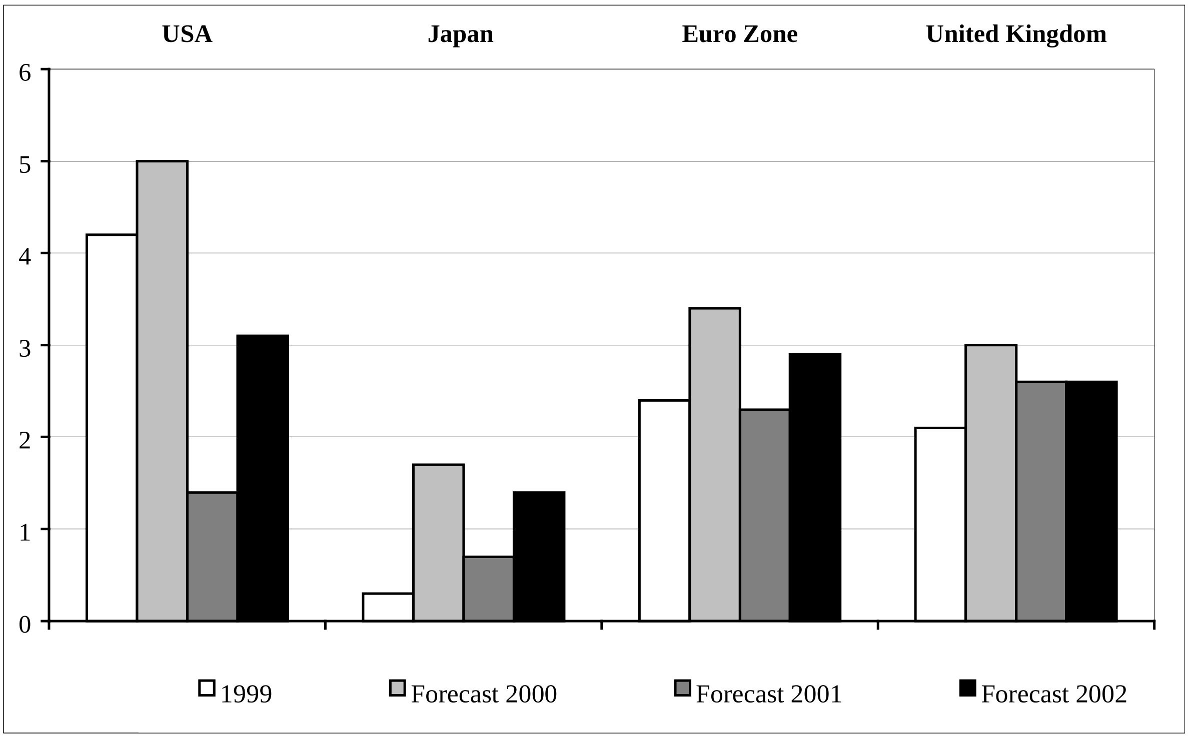
84. In September 2000, a North American small-capitalization equities mandate was funded in the amount of USD 10 million, and two European small-capitalization equities mandates were funded in the aggregate amount of USD 60 million.

85. The asset allocation targets for the overall portfolio were reached in the third quarter, hence IFAD's investment portfolio was widely diversified both in terms of geographical diversification and sector diversification, as well as in terms of large capitalization and small-capitalization stocks and concentration of growth and value stocks. Furthermore, the fixed-interest investments were diversified into a wider range of fixed-interest assets such as corporate bonds and mortgage-backed securities.

86. Having reached the asset allocation targets, IFAD may now draw on earnings of all sectors of the portfolio to cover disbursements for loans and grants and administrative expenses. Accordingly, an amount of USD 25 million was withdrawn from the diversified fixed-interest portfolio in December 2000.

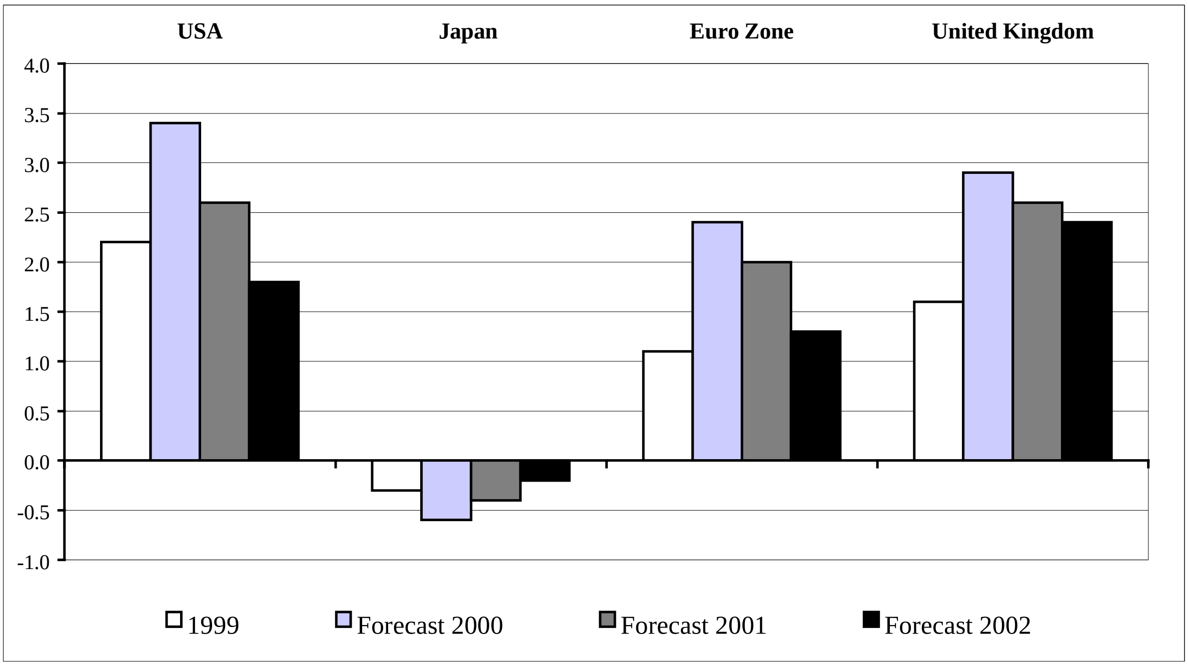
87. An investment seminar with IFAD's financial advisors was held during the seventy-first meeting of the Executive Board, and a further half-day seminar on investment policies and resources will be held in conjunction with the seventy-second meeting of the Executive Board in the afternoon of 24 April 2001.

PERCENTAGE CHANGE IN REAL GDP



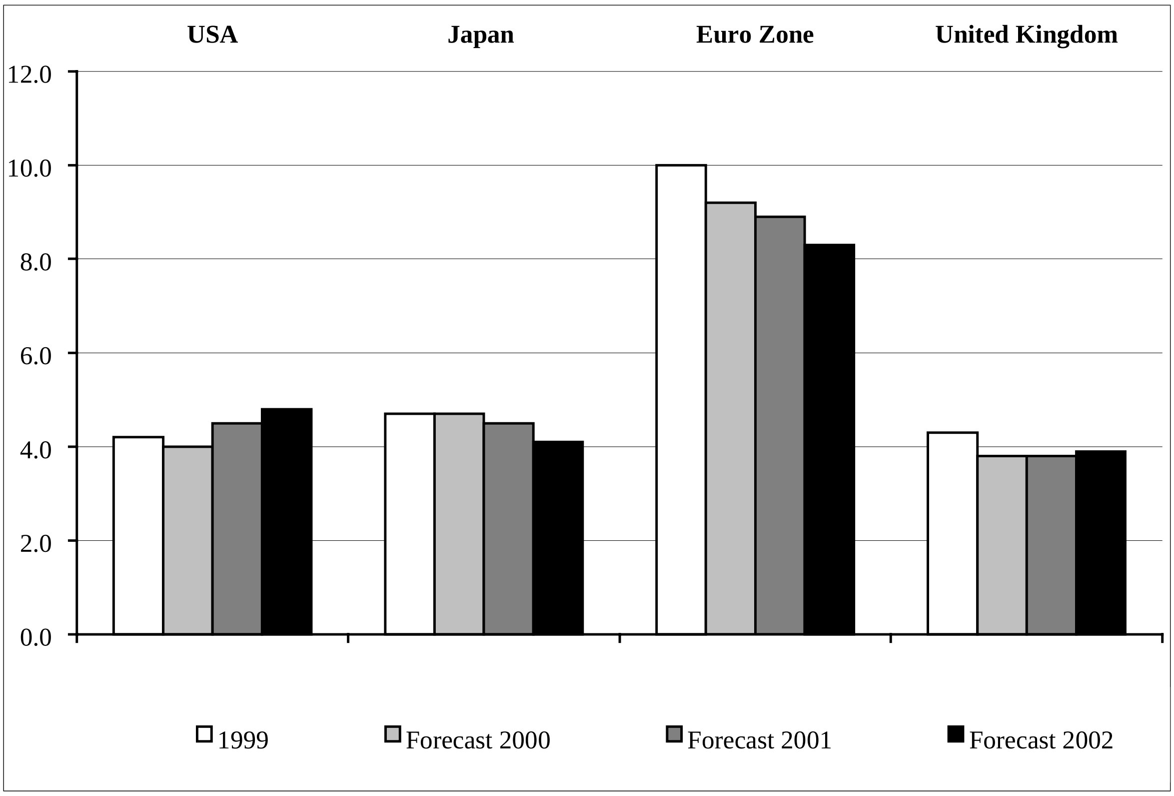
Source: J..P. Morgan

CONSUMER PRICE INDEX – ANNUALIZED RATES



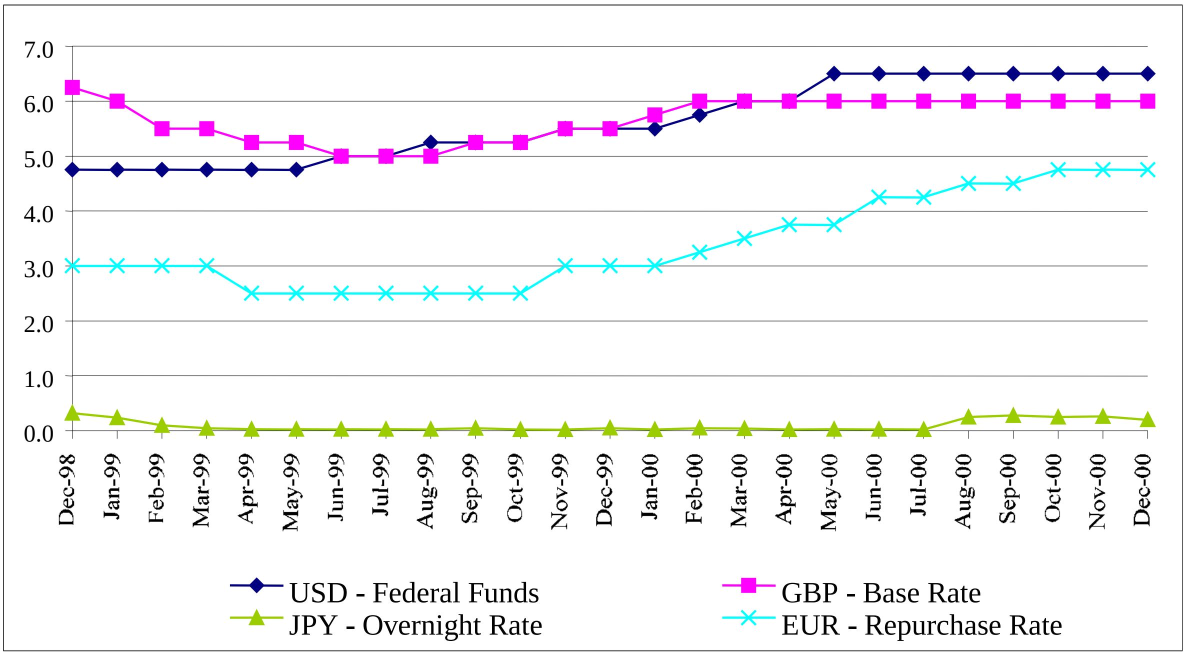
Source: J.P. Morgan

UNEMPLOYMENT RATE – PERCENTAGE OF LABOUR FORCE



Source: J.P. Morgan

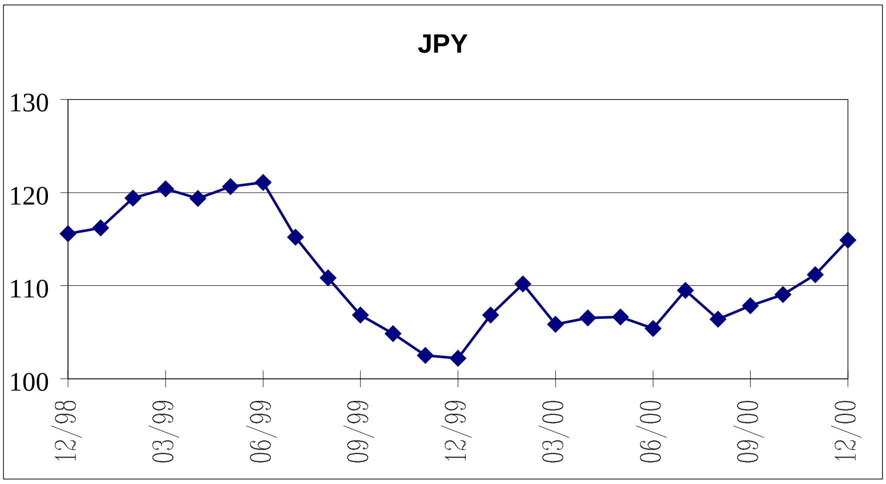
CENTRAL BANK AND GOVERNMENT-CONTROLLED INTEREST RATES

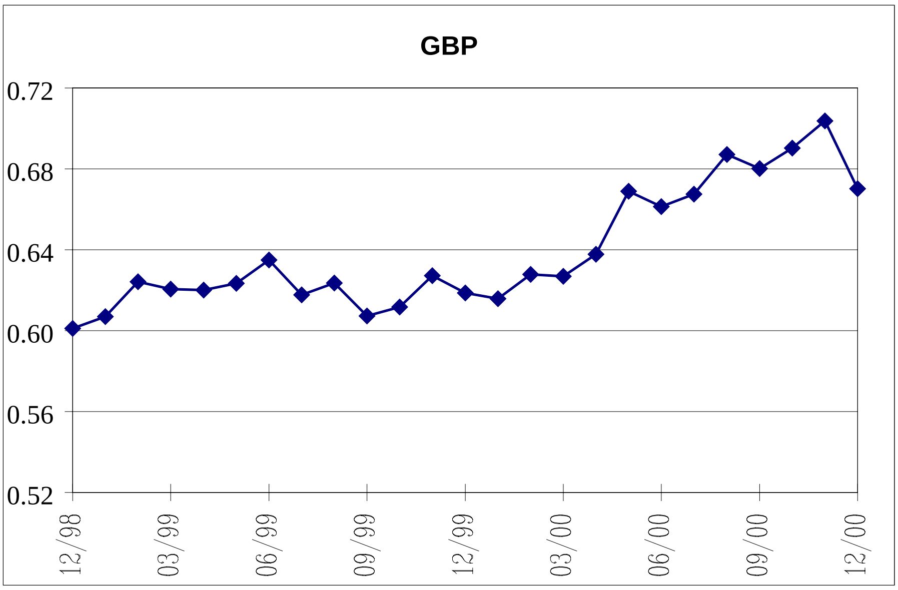


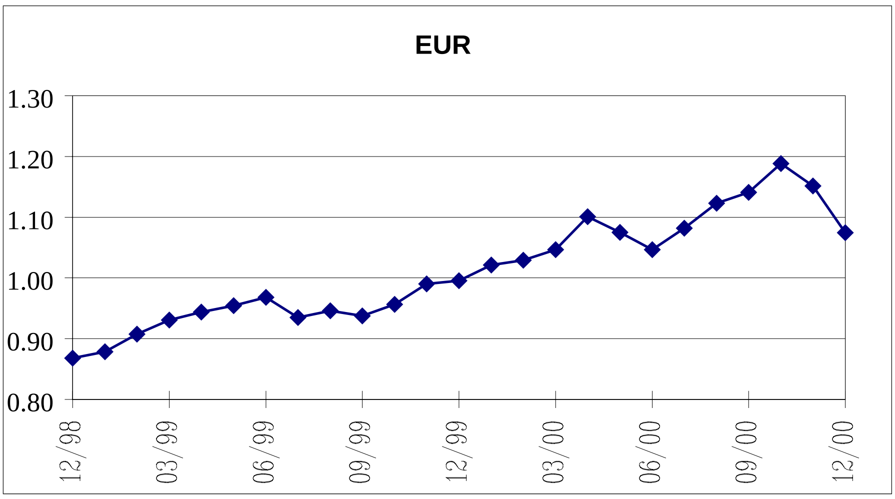
Source: Bloomberg

ANNEX V

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



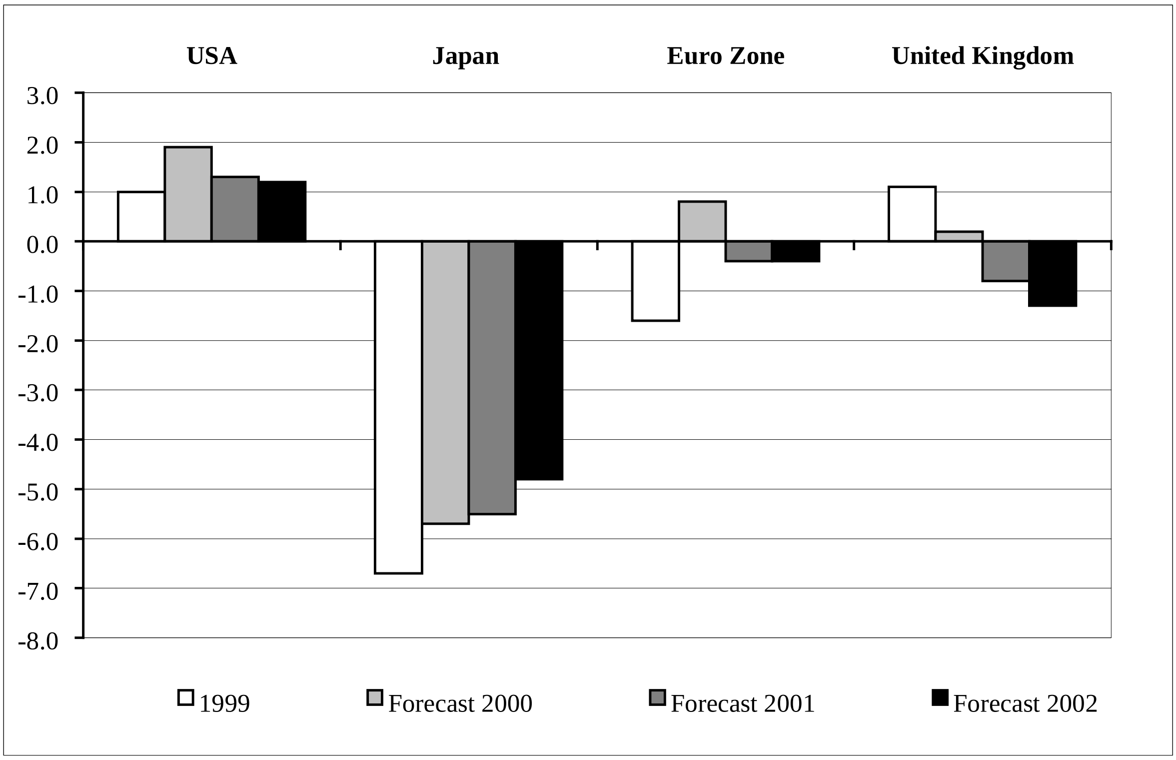




Source: International Monetary Fund (IMF)

ANNEX VI

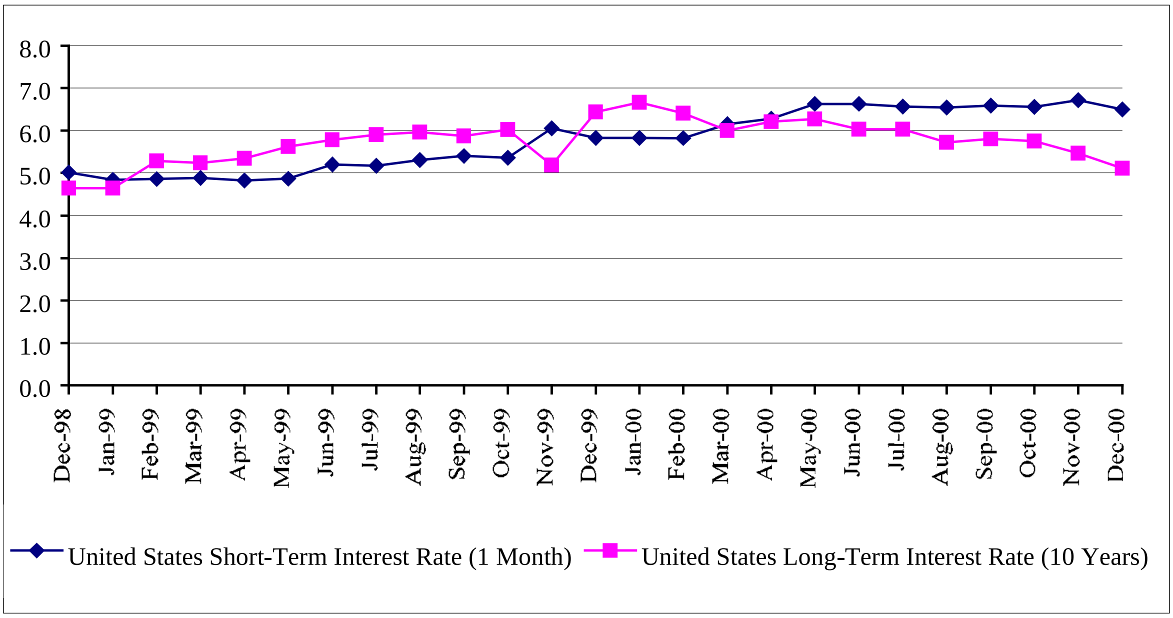
BUDGET DEFICITS – PERCENTAGES OF GDP



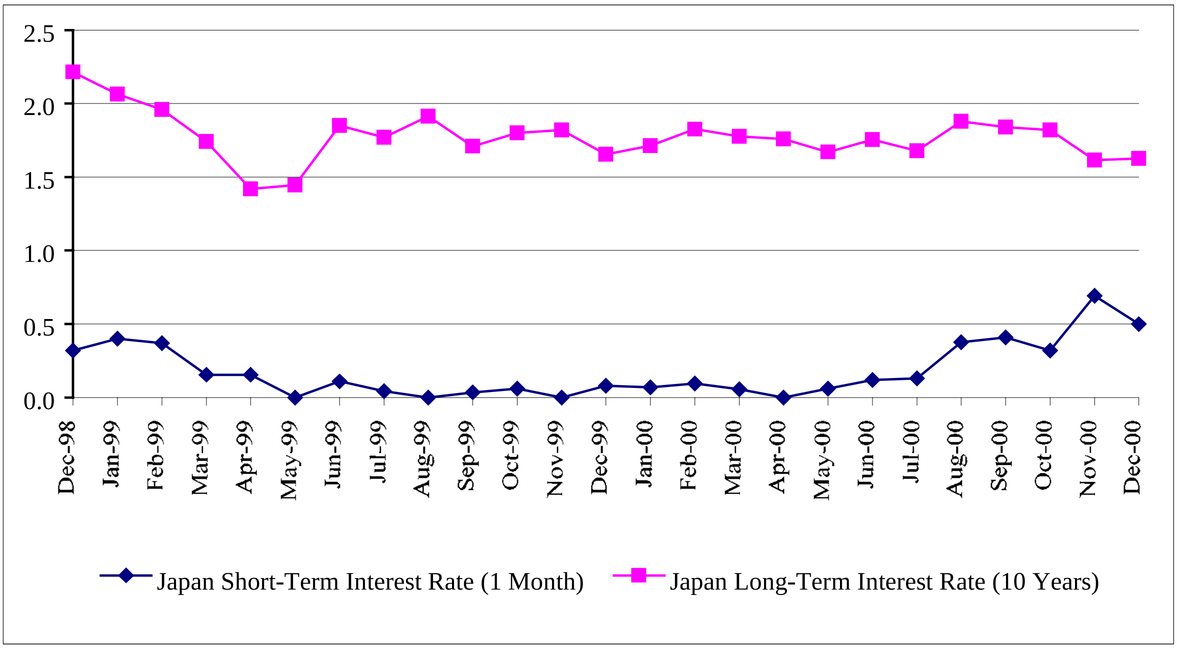
Source: J.P. Morgan

SHORT- AND LONG-TERM INTEREST RATES

United States

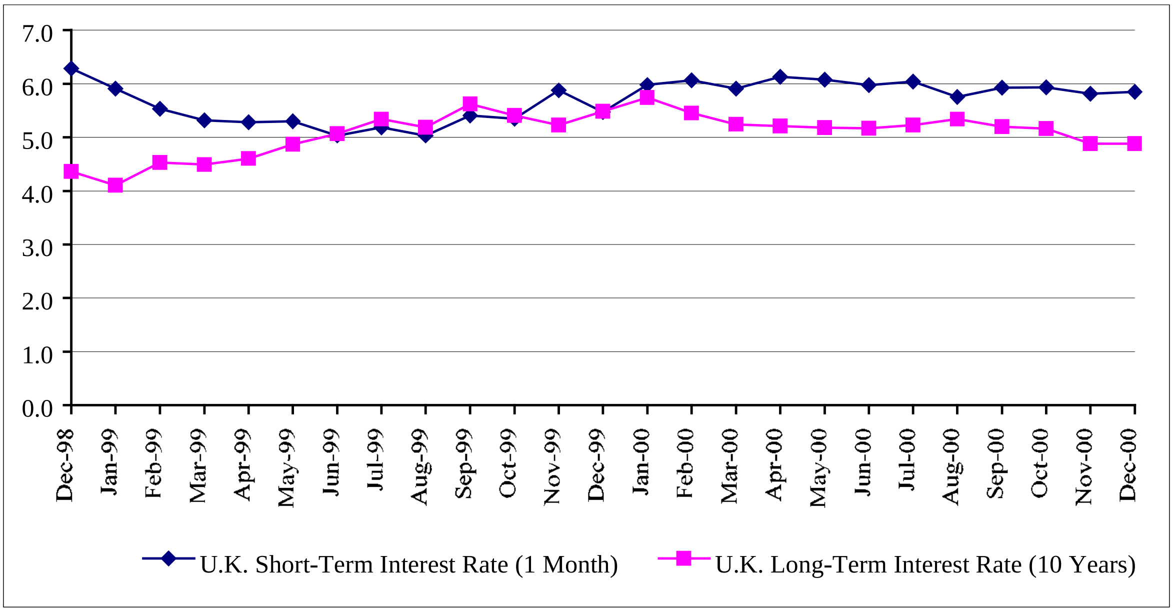


Japan

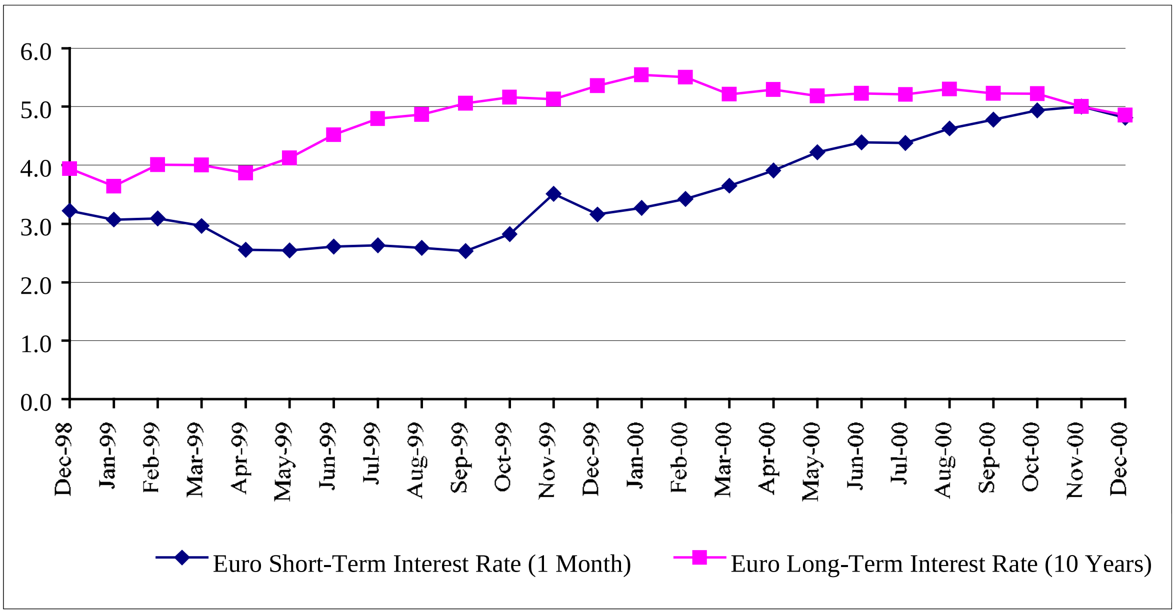


Source: Bloomberg

United Kingdom



Euro Zone



Source: Bloomberg

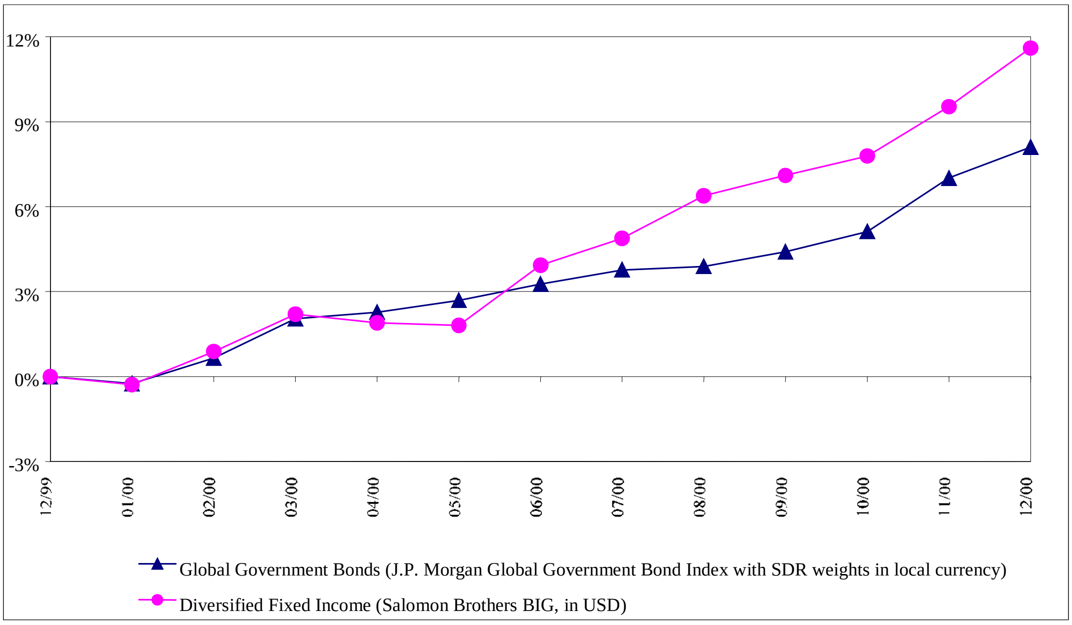
GOVERNMENT BOND RETURNS PER COUNTRY INCLUDED THE J.P. MORGAN GOVERNMENT BOND TRADED INDEX

(Percentage in Local Currency Terms)

Country	First Quarter 2000	Second Quarter 2000	Third Quarter 2000	Fourth Quarter 2000	2000	1999
Australia	3.68	2.81	1.05	5.19	13.32	(2.45)
Belgium	1.91	0.56	1.16	3.48	7.27	(2.51)
Canada	3.42	1.81	1.75	3.09	10.43	(1.44)
Denmark	1.53	(0.06)	1.66	3.94	7.22	(0.71)
Euro zone	1.89	0.64	1.11	3.35	7.17	(2.58)
France	1.80	0.60	1.14	3.41	7.13	(2.98)
Germany	1.88	0.85	1.04	3.31	7.25	(2.17)
Italy	1.98	0.45	1.15	3.24	6.98	(2.75)
Japan	(0.14)	0.82	(0.17)	1.76	2.27	5.01
Netherlands	2.03	0.88	1.12	3.30	7.51	(2.58)
Spain	1.89	0.63	1.10	3.29	7.09	(2.87)
Sweden	2.53	1.56	1.72	3.58	9.71	(2.68)
United Kingdom	2.27	1.95	0.70	3.93	9.11	(1.33)
United States	3.97	1.52	2.58	5.23	13.93	(2.88)
GLOBAL	**2.16**	**1.09**	**1.25**	**3.53**	**8.26**	**(1.20)**

Source: J.P. Morgan

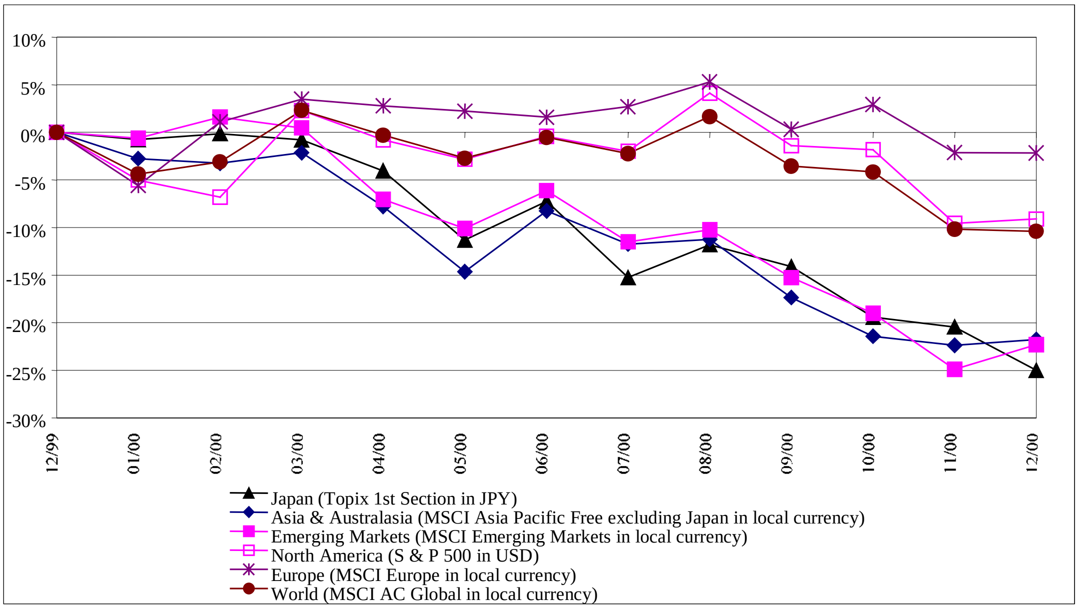
FIXED-INTEREST MARKET DEVELOPMENT IN 2000
(Monthly Data)



Source: State Street Analytics

ANNEX X

EQUITY MARKET DEVELOPMENT IN 2000
(Monthly Data)



Source: State Street Analytics

Note: MSCI = Morgan Stanley Capital International
S & P = Standard and Poor
AC = All countries

GROSS INCOME 1997-2000

Overall Portfolio

	2000	1999	1998	1997	Total 4 Years
Capital Gains	(117 460)	105 133	76 957	41 192	105 822
Interest Income	68 819	90 253	112 668	128 779	400 519
Dividends	11 760	8 684	5 654	94	26 192
Total Gross Income	**(36 881)**	**204 070**	**195 279**	**170 065**	**532 533**

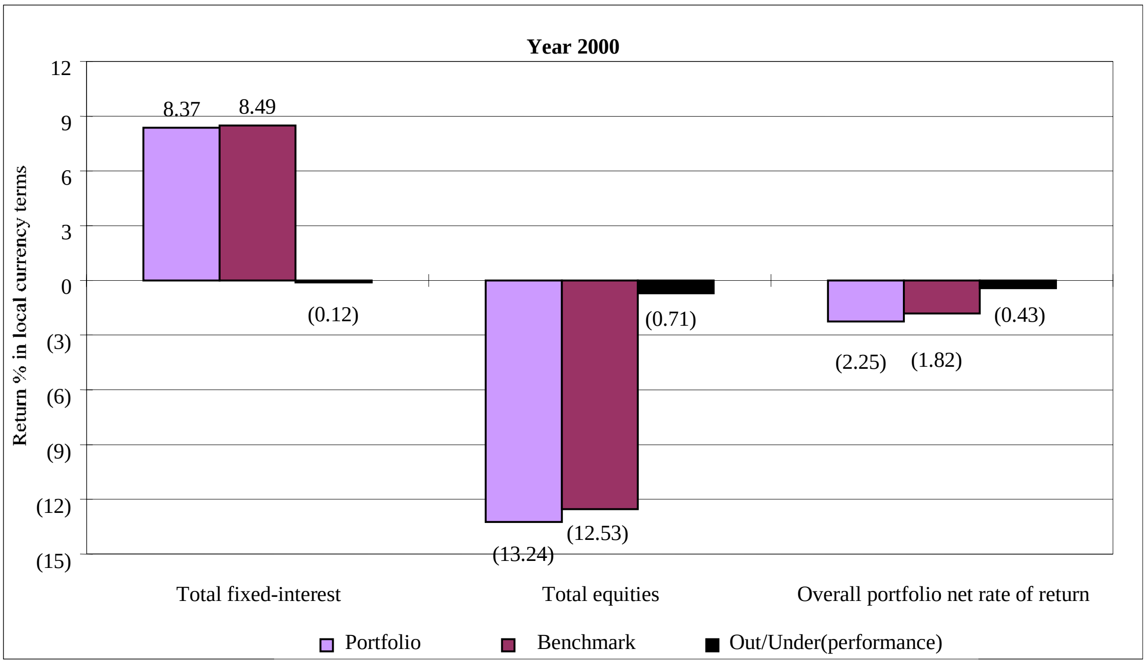
Fixed-Interest Portfolio

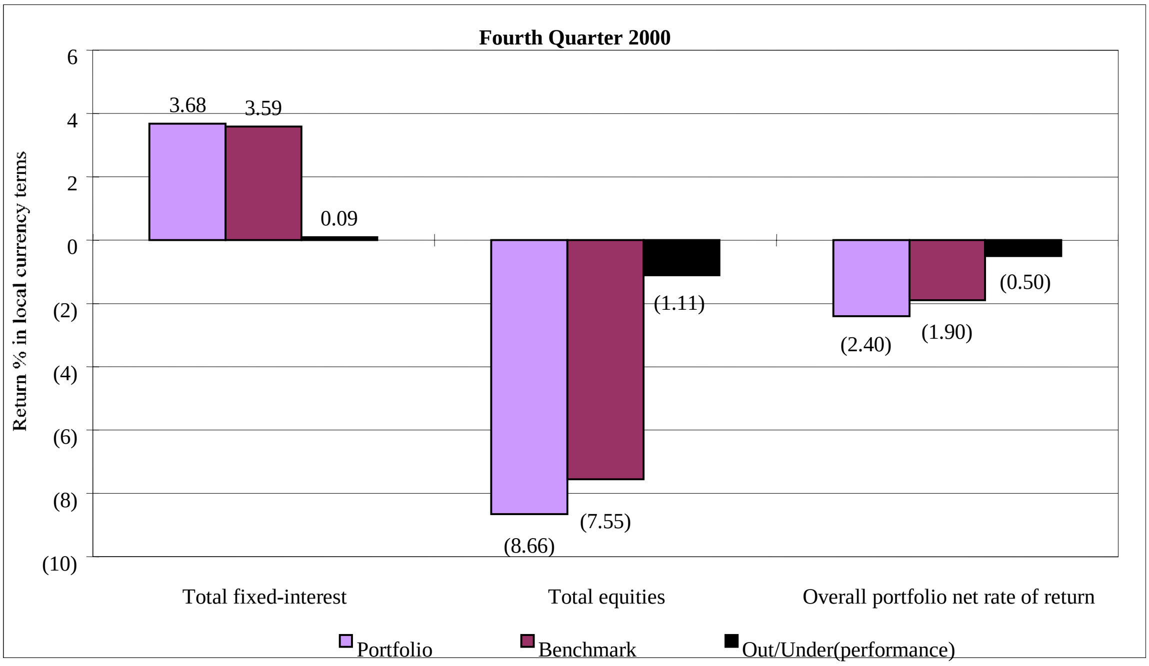
	2000	1999	1998	1997	Total 4 Years
Capital Gains	31 959	(121 637)	104 229	50 315	64 866
Interest Income	67 228	89 333	108 773	128 779	394 113
Dividends	-	114	-	-	114
Total Gross Income	**99 187**	**(32 190)**	**213 002**	**179 094**	**459 093**

Equities Portfolio

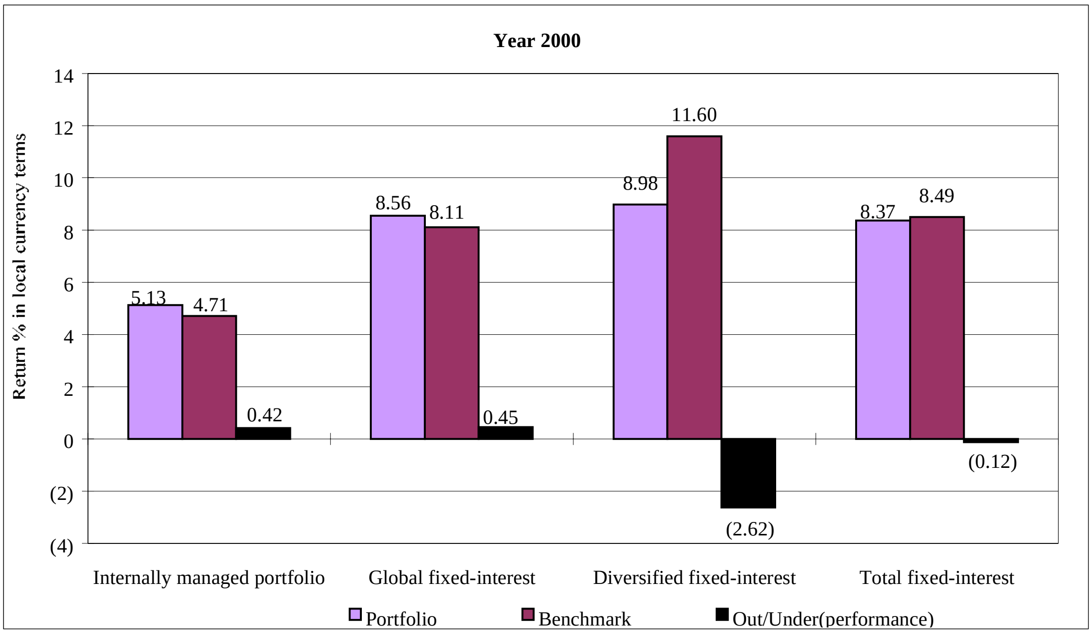
	2000	1999	1998	1997	Total 4 Years
Capital Gains	(149 419)	226 770	(27 272)	(9 123)	40 956
Interest Income	1 591	920	3 895	0	6 406
Dividends	11 760	8 570	5 654	94	26 078
Total Gross Income	**(136 068)**	**236 260**	**(17 723)**	**(9 029)**	**73 440**

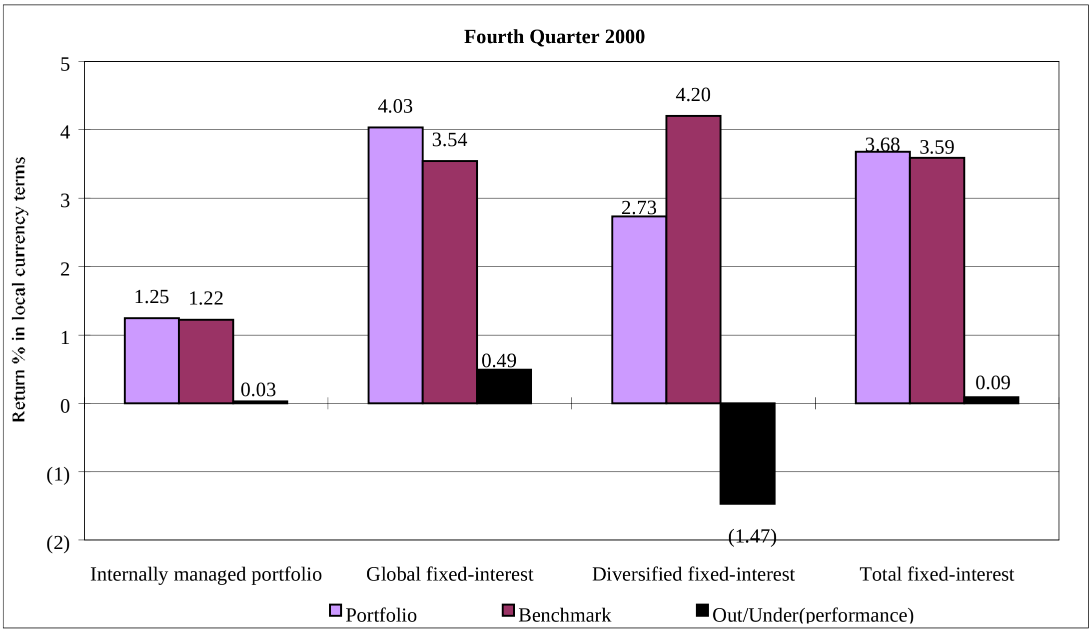
PERFORMANCE – OVERALL PORTFOLIO





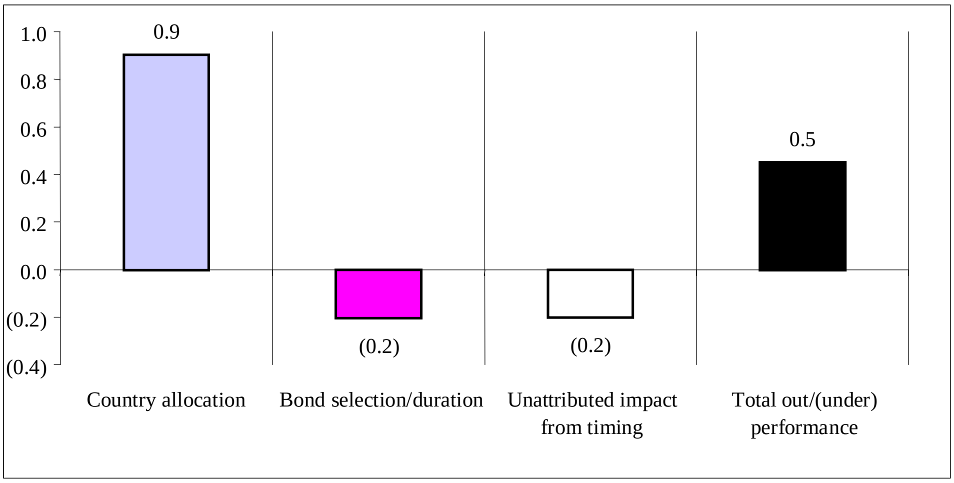
PERFORMANCE – FIXED-INTEREST PORTFOLIO



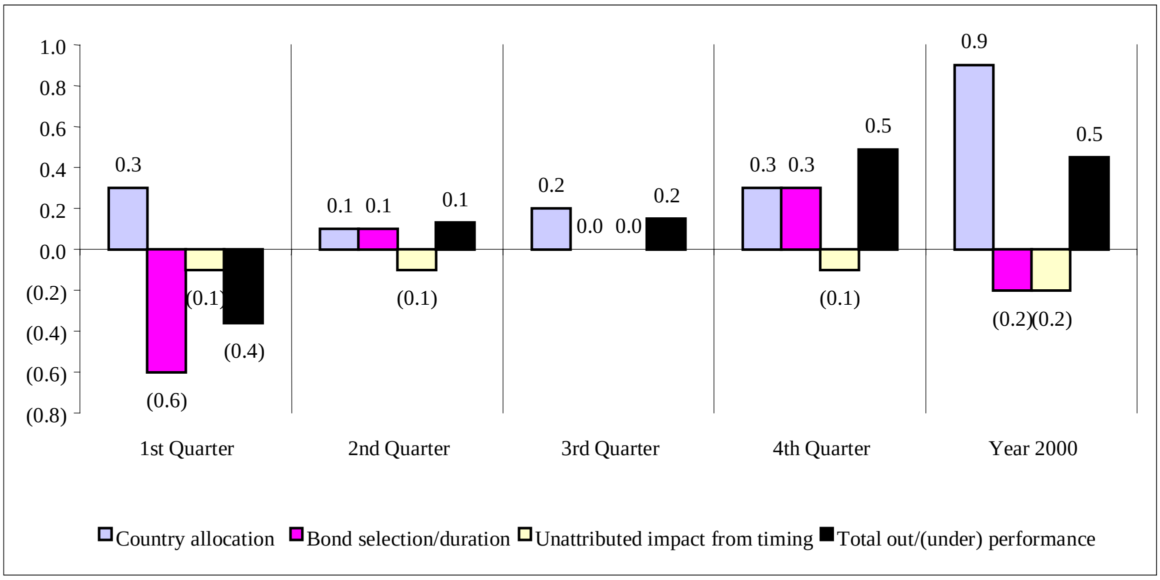


PERFORMANCE ATTRIBUTION FOR THE GLOBAL FIXED-INTEREST PORTFOLIO

Year

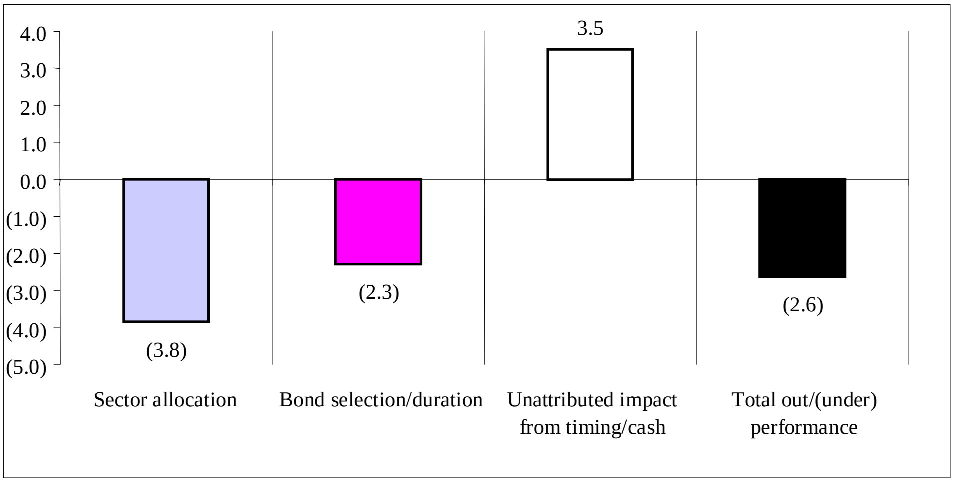


Year 2000 - Quarterly

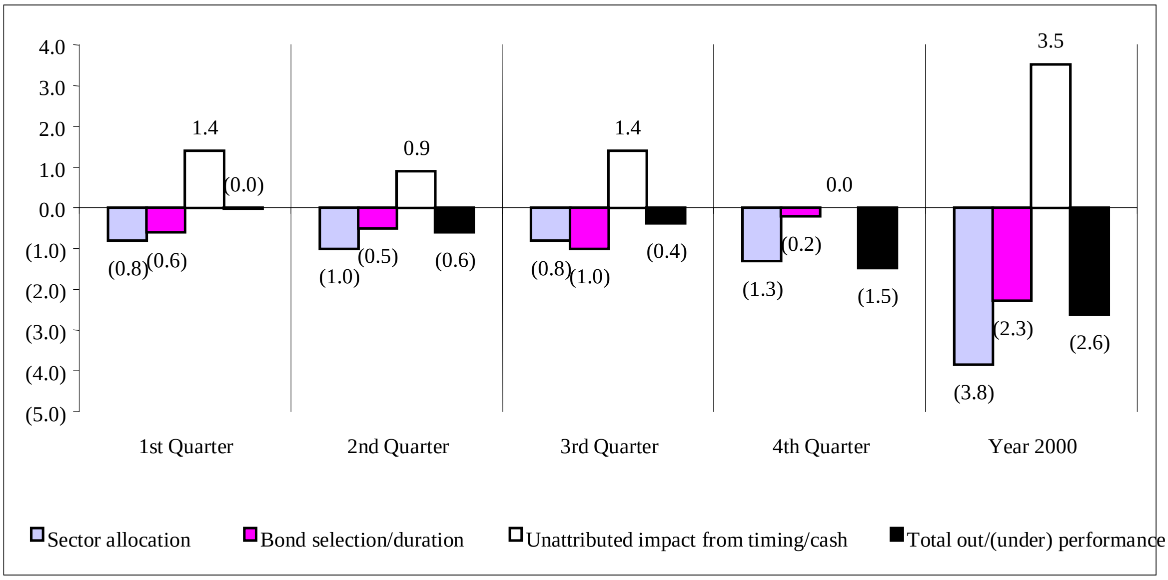


PERFORMANCE ATTRIBUTION FOR THE DIVERSIFIED FIXED-INTEREST PORTFOLIO

Year

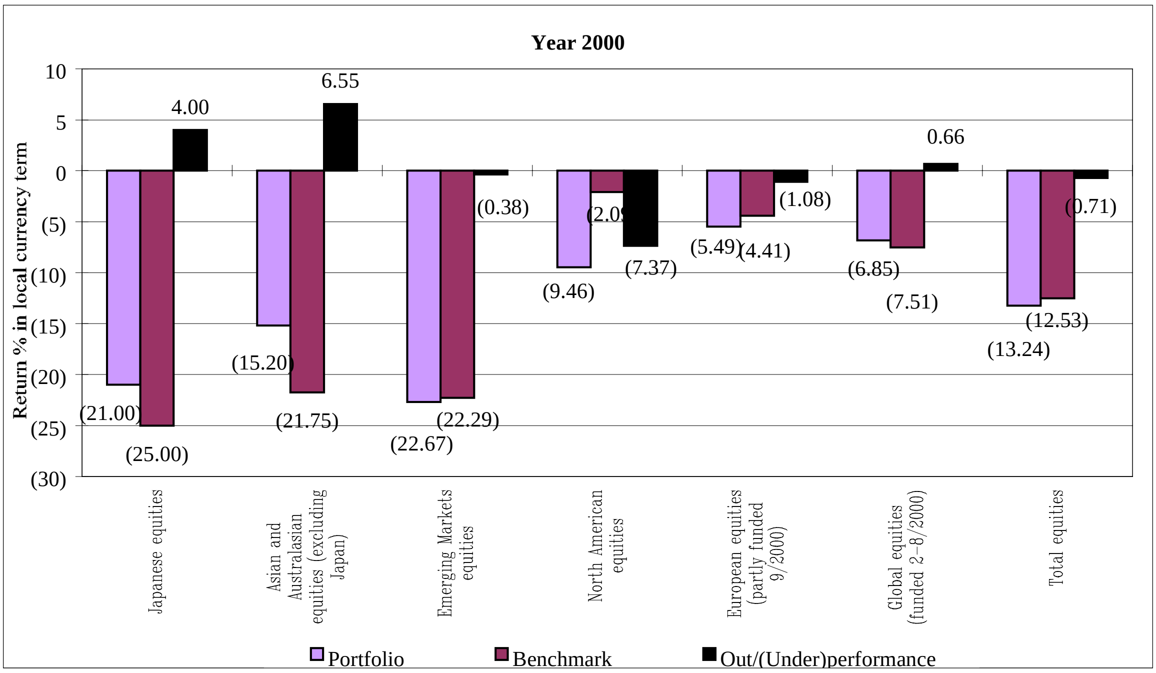


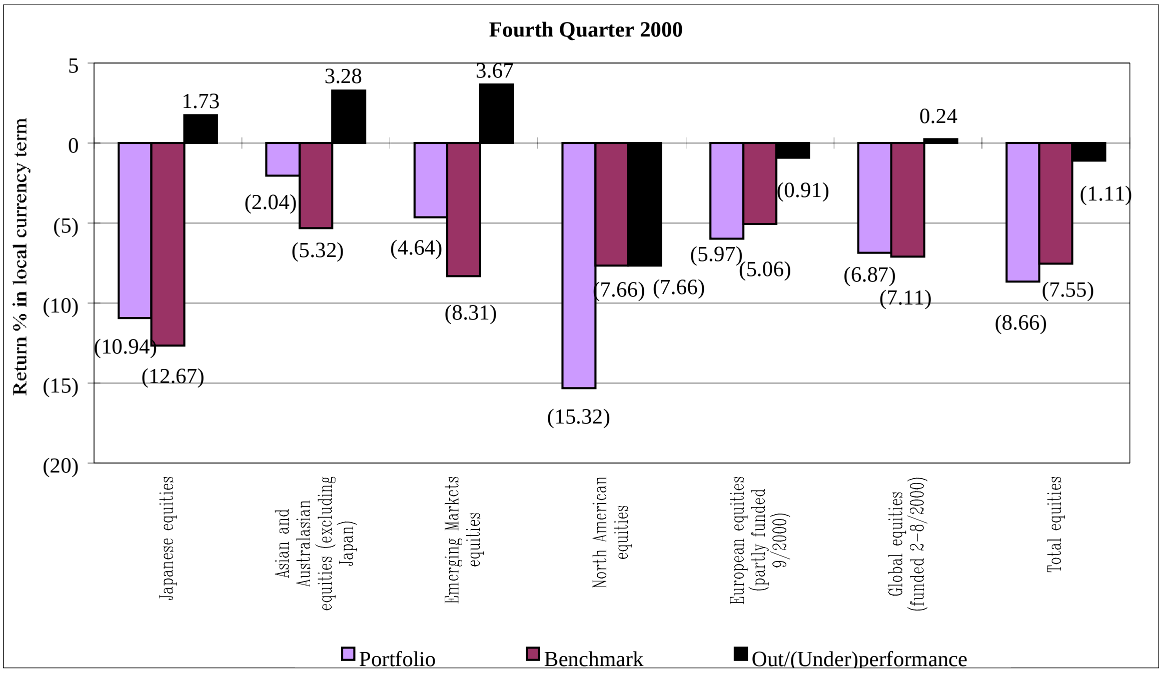
Year 2000 - Quarterly



ANNEX XVI

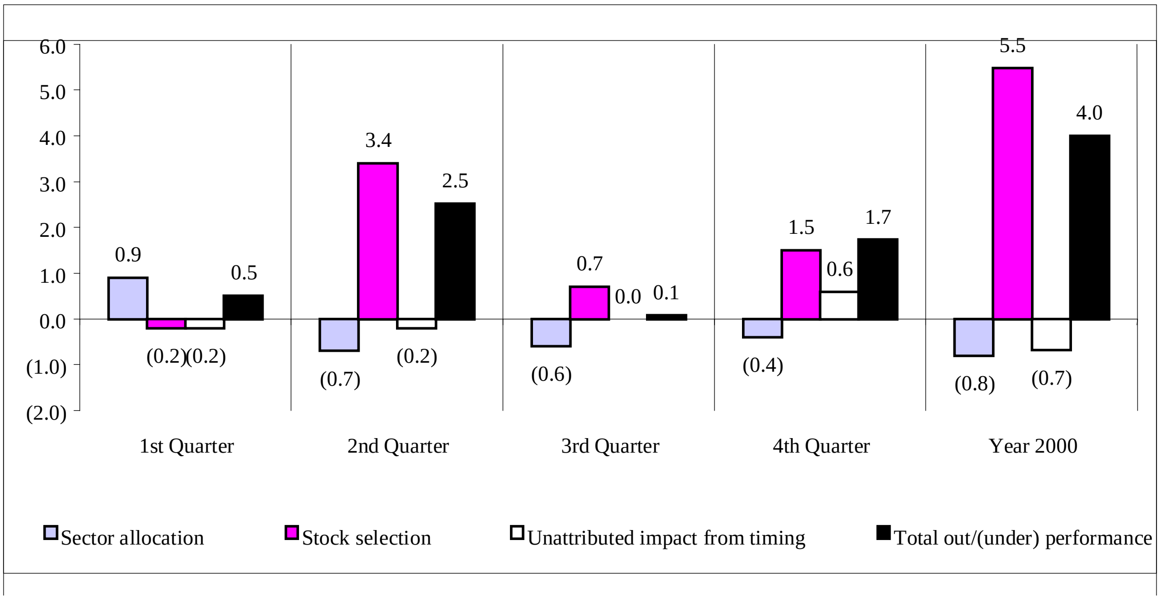
EQUITY PORTFOLIO



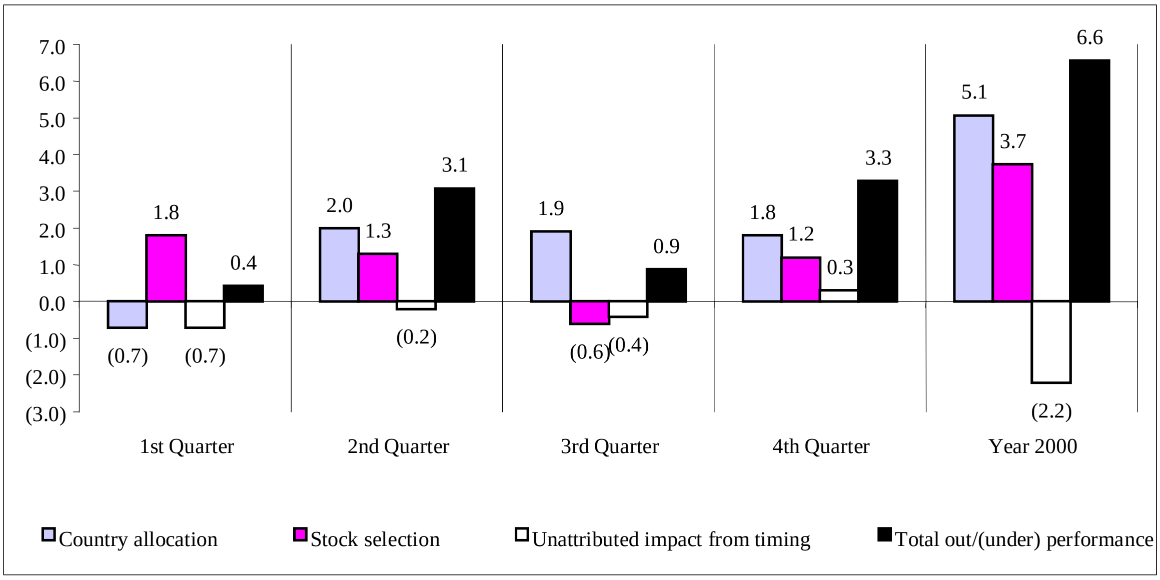


PERFORMANCE ATTRIBUTION FOR THE EQUITIES PORTFOLIO

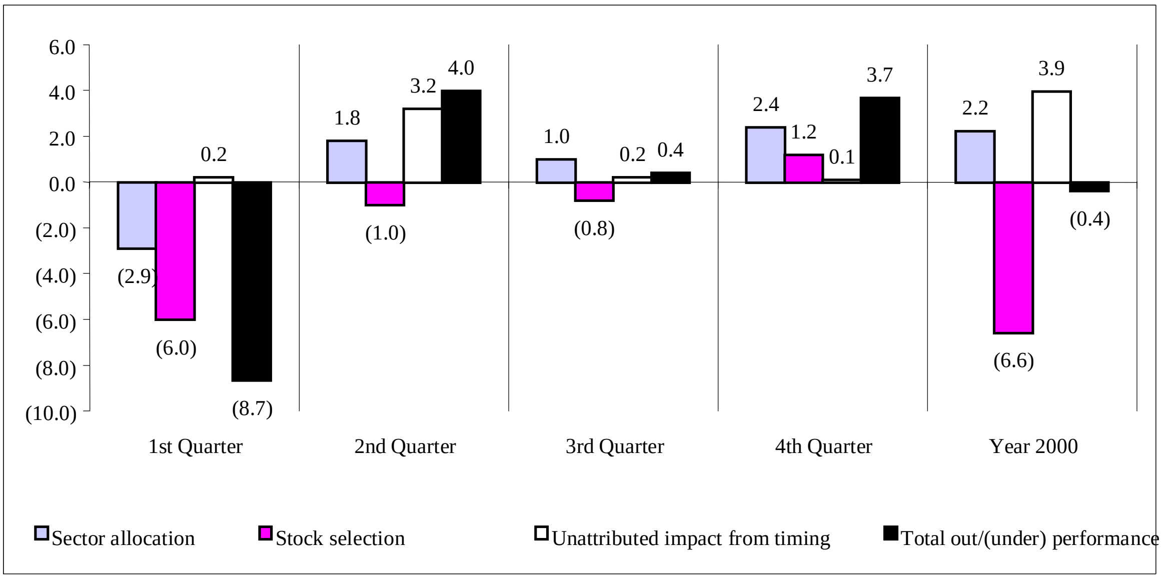
Japanese Equities



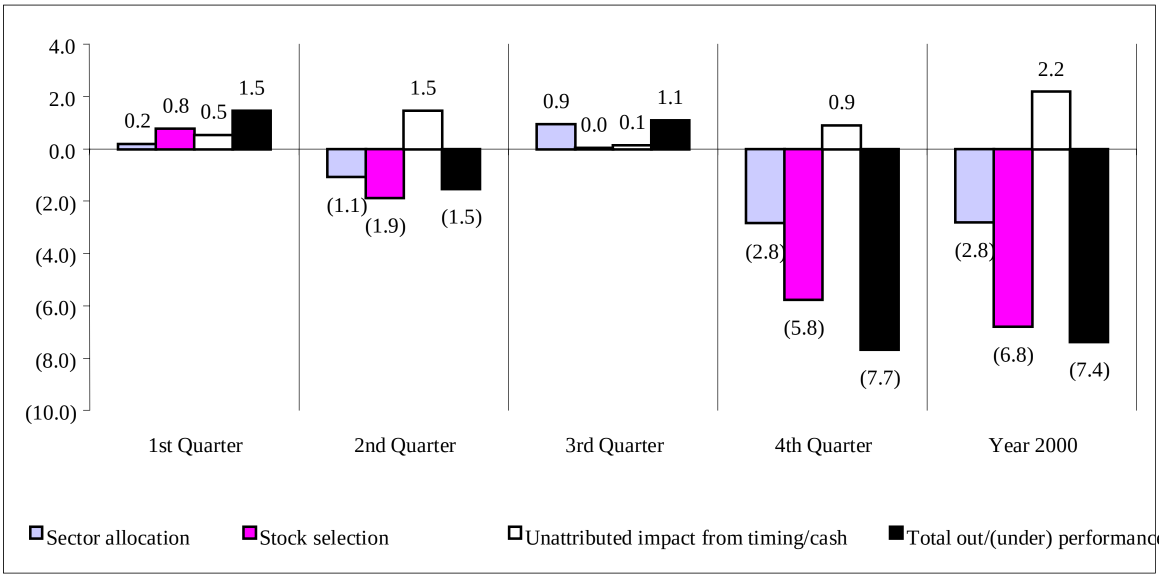
Asian and Australasian Equities



Emerging-Markets Equities

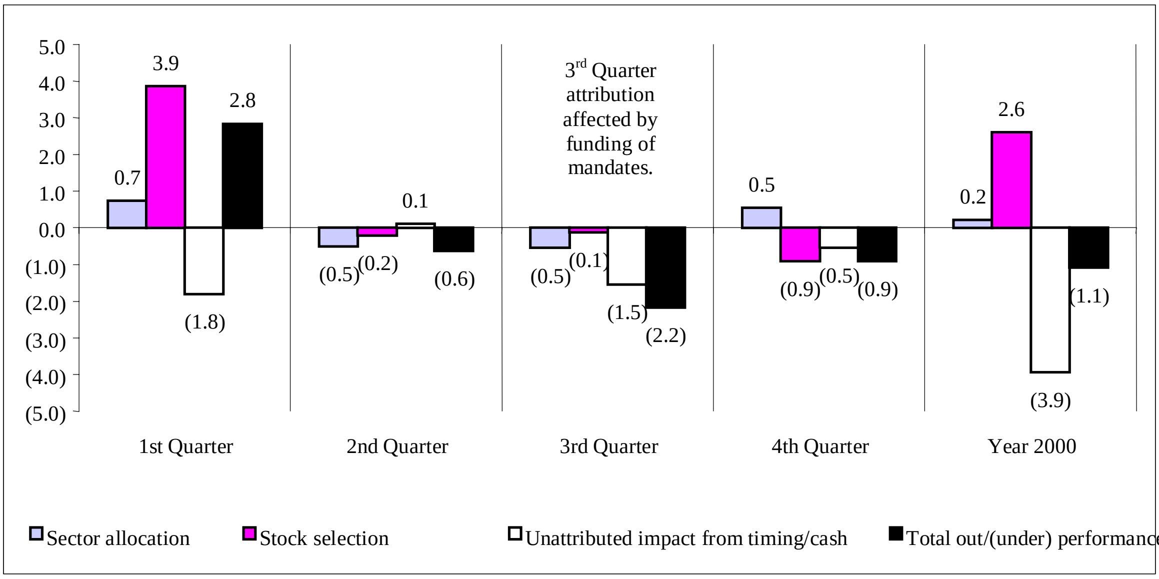


North American Equities

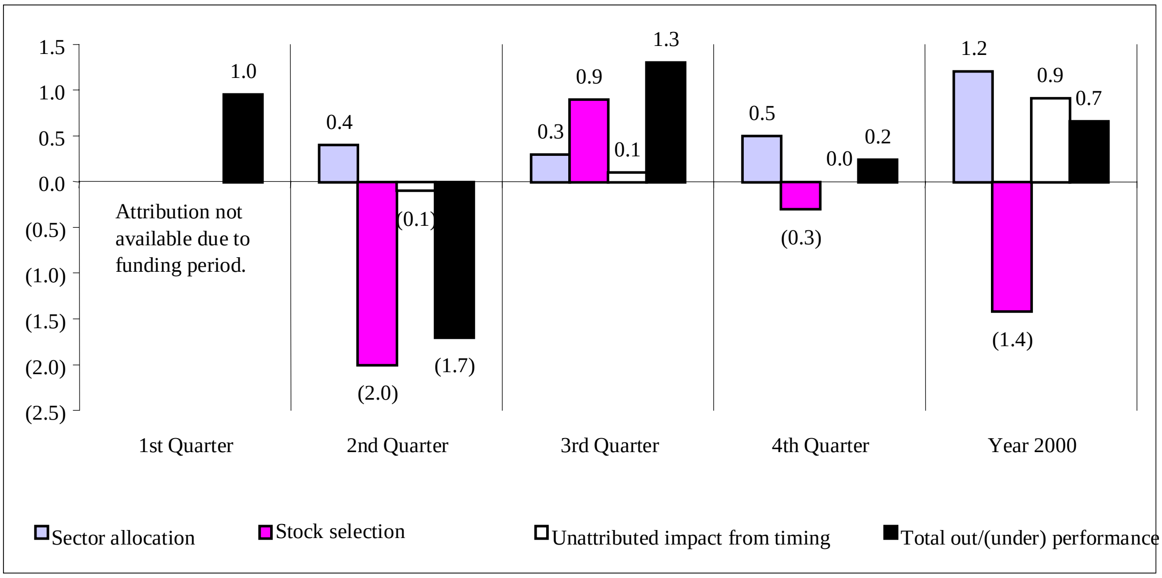


ANNEX XVII

European Equities



Global Equities



ANALYSIS OF CASH FLOWS
(USD '000 equivalent)

	2000	1999[1)]
Balance at 1 January	**2 327 402**	**2 268 295**
Investment Income	**(47 850)**	**194 469**
Other inflows:		
Loan income received	43 988	44 197
Loan principal repayments	132 858	133 219
Encashment of promissory notes	76 255	78 636
Contributions received in cash	21 363	22 004
Total inflows	**274 464**	**278 056**
Outflows:		
Loan disbursements	(285 144)	(283 995)
Grant disbursements	(27 316)	(30 100)
Payment of administrative expenses	(48 311)	(48 213)
Miscellaneous	(7 830)	2 814
Total outflows	**(368 601)**	**(359 494)**
Effects of movements in exchange rates	**(117 224)**	**(53 924)**
Balance at 31 December	**2 068 191**	**2 327 402**

1) Restated – see paragraph 33.

ANALYSIS OF THE FIXED INTEREST PORTFOLIO BY TYPE OF MANDATE AND BY INSTRUMENT AT 31 DECEMBER 2000

(USD '000 equivalent)

Instruments	Internally Managed Portfolio	Global Fixed-Interest Portfolio	Diversified Fixed-Interest Portfolio	Total Fixed-Interest Portfolio 31.12.2000
Cash	17 482	8 537	1 972	27 991
Time deposits	15 508	98 953	60 074	174 535
Global government bonds	-	796 273	22 065	818 338
Emerging market bonds	-	-	35 428	35 428
Mortgage-backed securities	-	-	60 597	60 597
Asset-backed securities	-	-	6 927	6 927
Corporate bonds	-	-	57 761	57 761
Equities	-	-	-	-
Futures	-	-	47	47
Options	-	-	54	54
Open trades	(133)	(30 791)	(42 361)	(73 285)
Accrued interest income	298	14 952	2 977	18 227
Dividends receivable	-	-	-	-
Non-convertible currencies	747	-	-	747
Total	**33 902**	**887 924**	**205 541**	**1 127 367**
Actual allocation (%)	1.7	42.9	9.9	54.5
Policy allocation (%)	5.0	40.0	10.0	55.0
Difference in allocation (%)	**(3.3)**	**2.9**	**(0.1)**	**(0.5)**

ANNEX XX

CURRENCY COMPOSITION OF THE INVESTMENT PORTFOLIO, HOLDINGS OF PROMISSORY NOTES AND AMOUNTS RECEIVABLE FROM CONTRIBUTORS AT 31 DECEMBER 2000

(USD '000 equivalent)

Currency	Cash and Investments	Promissory Notes*	Amounts Receivable*	Total
USD	807 235	89 734	30 850	927 819
EUR	460 903	88 949	-	549 852
JPY	308 916	47 492	-	356 408
GBP	252 680	24 517	-	277 197
Subtotal	**1 829 734**	**250 692**	**30 850**	**2 111 276**
ARS	(1 325)	-	-	(1 325)
AUD	37 774	4 906	-	42 680
BRL	4 543	-	-	4 543
CAD	27 725	21 318	-	49 043
CHF	31 714	10 276	-	41 990
DKK	16 159	21 565	-	37 724
EEK	401	-	-	401
EGP	1 137	-	-	1 137
GRD	1 513	-	-	1 513
HKD	36 449	-	-	36 449
HUF	146	-	-	146
IDR	911	-	-	911
ILS	187	-	-	187
INR	247	-	-	247
KRW	14 398	-	-	14 398
MXN	3 047	-	-	3 047
MYR	5 013	-	-	5 013
NOK	2 091	13 360	-	15 451
NZD	646	-	-	646
PHP	3 985	-	-	3 985
PLN	2 008	-	-	2 008
PKR	467	-	-	467
SEK	17 538	19 928	-	37 466
SGD	13 921	-	-	13 921
THB	6 198	-	-	6 198
TRL	5 121	-	-	5 121
ZAR	5 696	-	-	5 696
Subtotal	**237 710**	**91 353**	**-**	**329 063**
Total Convertible Currencies	**2 067 444**	**342 045**	**30 850**	**2 440 339**
Non-Convertible Currencies	747	1 399	-	2 146
Total	**2 068 191**	**343 444**	**30 850**	**2 442 485**

*Excludes promissory notes and amounts receivable for complementary contributions and for the Fifth Replenishment.

COMPOSITION OF THE INVESTMENT PORTFOLIO BY MATURITY OF INVESTMENTS
(USD '000 equivalent)

Period	31 December 2000		31 December 1999	
	Amount	%	Amount	%
Within 1 year	214 980	10.4	249 945	10.7
Within 2-5 years	199 960	9.7	398 425	17.1
Within 6-10 years	490 579	23.7	637 726	27.4
Over 10 years	280 252	13.6	270 937	11.6
No fixed maturity (equities)	882 420	42.7	770 369	33.1
Total	2 068 191	100.0	2 327 402	100.0

DIVERSIFICATION OF THE INVESTMENT PORTFOLIO BY MEMBER COUNTRIES
(USD ’000 equivalent)

31 December 2000

	Cash	Time-Deposits	Fixed-Income Securities	Equities	Other Assets	Total	%
Latin America and Caribbean	113	-	25 802	11 696	-	37 611	1.8
Emerging Europe	1 180	-	3 495	9 804	-	14 479	0.7
North Africa, Near East	-	10 000	2 903	1 636	-	14 539	0.7
Sub-Saharan Africa	1 363	-	1 312	6 446	-	9 121	0.4
East and South Asia	1 130	390	1 916	72 619	-	76 055	3.7
Subtotal Developing Countries	3 786	10 390	35 428	102 201	-	151 805	7.3
Developed Countries	56 720	193 515	891 796	780 219	(57 691)	1 864 559	90.2
International Development Institutions	-	-	51 827	-	-	51 827	2.5
Total	60 506	203 905	979 051	882 420	(57 691)	2 068 191	100.0

31 December 1999

	Cash	Time-Deposits	Fixed-Income Securities	Equities	Other Assets	Total	%
Developing Countries	647	30 907	35 182	198 967	-	265 703	11.4
Developed Countries	67 614	141 868	1 195 557	571 402	(24 806)	1 951 635	83.9
International Development Institutions	-	-	110 064	-	-	110 064	4.7
Total	68 261	172 775	1 340 803	770 369	(24 806)	2 327 402	100.0

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

I. INTRODUCTION

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

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

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. Since the asset allocation targets of the overall portfolio had been reached in the third quarter, IFAD was then able, in principle, to draw on earnings of all sectors of the portfolio to cover disbursements for loans and grants and administrative expenses. Accordingly, an amount of USD 25 000 000 was withdrawn from the diversified fixed-interest portfolio in December 2000.

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

	Internally Managed Portfolio	Global Government Bonds	Diversified Fixed-Interest	Equities	Overall Portfolio
Opening Balance (1 October 2000)	**48 582**	**843 494**	**224 372**	**1 032 316**	**2 148 764**
Gross Investment Income	504	34 025	5 939	(89 381)	(48 913)
Securities Lending Income	-	55	-	31	86
Fees, Charges and Taxes	(42)	(572)	(308)	(2 100)	(3 022)
Net Investment Income	**462**	**33 508**	**5 631**	**(91 450)**	**(51 849)**
Transfers due to allocation	24 940	-	(25 000)	60	-
Transfers due to expenses	(2 796)	512	302	1 982	-
Transfers between portfolios	**22 144**	**512**	**(24 698)**	**2 042**	**-**
Other net flows	(38 201)	-	-	-	(38 201)
Movements on exchange	915	10 410	236	(2 084)	9 477
Closing Balance (31 December 2000)	**33 902**	**887 924**	**205 541**	**940 824**	**2 068 191**
Actual Allocation (%)	1.6	42.9	9.9	45.5	100.0
Policy Allocation (%)	5.0	40.0	10.0	45.0	100.0
Difference in Allocation (%)	(3.4)	2.9	(0.1)	0.5	0.0

III. INVESTMENT INCOME

4. Table 2 shows investment income for the fourth 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, especially in the United States.

5. Aggregate net investment income in the fourth quarter of 2000 amounted to a loss of USD 51 849 000 equivalent, which, added to income of USD 3 999 000 equivalent for the first nine months of 2000, amounted to a loss of USD 47 850 000 equivalent for the calendar year 2000 (1999 – USD 194 469 000 equivalent).

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

	4th Quarter 2000	Year to 30.09.2000	2000	1999	1998	1997
Internally Managed Portfolio	462	3 192	3 654	3 114	4 834	18 633
Global Government Bonds	33 508	41 117	74 625	(43 977)	195 506	154 228
Diversified Fixed-Interest	5 631	11 984	17 615	3 832	6 130	-
Equities	(91 450)	(52 294)	(143 744)	231 500	(18 571)	(8 921)
Overall Portfolio	**(51 849)**	**3 999**	**(47 850)**	**194 469**	**187 899**	**163 940**

6. Table 3 shows net income for the various sectors for the fixed-income portfolio for the fourth 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 as well as corporate bonds against United States Treasury bonds, which performed well in the fourth quarter.

Table 3: Investment Income on the Fixed-Interest Portfolio – Fourth 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	504	11 327	4 048	15 879
Dividend income from equities	-	-	-	-
Realized capital gains	-	3 282	781	4 063
Unrealized capital gains	-	19 416	1 110	20 526
Subtotal: Gross investment income	**504**	**34 025**	**5 939**	**40 468**
Securities lending income	-	55	-	55
Investment manager fees	-	(395)	(219)	(614)
Custody fees	(22)	(102)	(64)	(188)
Financial advisory and other investment management fees	-	(70)	(19)	(89)
Taxes	-	-	4	4
Other investment expenses	(20)	(5)	(10)	(35)
Net investment income	**462**	**33 508**	**5 631**	**39 601**
Gross rate of return (4th quarter)	**1.25**	**4.03**	**2.73**	**3.68**
Benchmark rate of return (4th quarter)	**1.22**	**3.54**	**4.20**	**3.59**
Out/(under) performance (4th quarter)	**0.03**	**0.49**	**(1.47)**	**0.09**

7. Table 4 shows the net income for the various sectors of the equities portfolio for the fourth quarter of 2000. All equity sectors were affected negatively by the economic conditions and performed negatively. Most equity sectors showed an outperformance against their respective benchmarks, but the European and the North American equities underperformed. The North American equities mandate's underperformance was mainly due to a moderate, overall overweighting in information technology, together with negative stock selection in the same sector. The information technology sector was the weakest-performing sector in the fourth quarter.

Table 4: Investment Income on the Equities Portfolio – Fourth 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	-	76	196	214	10	42	11	549
Dividend income from equities	50	400	145	(53)	664	371	476	2 053
Realized capital gains	4 440	(1 852)	(1 188)	-	(4 106)	291	(6 448)	(8 863)
Unrealized capital gains	(21 028)	(631)	(3 333)	-	(35 792)	(12 115)	(10 221)	(83 120)
Subtotal: Gross investment income	**(16 538)**	**(2 007)**	**(4 180)**	**161**	**(39 224)**	**(11 411)**	**(16 182)**	**(89 381)**
Securities lending income	20	4	3	-	2	-	2	31
Investment manager fees	(159)	(146)	(259)	-	(316)	(224)	(267)	(1 371)
Custody fees	(14)	(42)	(165)	(7)	(80)	(63)	(79)	(450)
Financial advisory and other investment management fees	(13)	(8)	(7)	(1)	(21)	(16)	(18)	(84)
Taxes	-	(21)	(27)	-	11	(103)	(33)	(173)
Other investment expenses	-	-	(19)	1	-	(1)	(3)	(22)
Net investment income	**(16 704)**	**(2 220)**	**(4 654)**	**154**	**(39 628)**	**(11 818)**	**(16 580)**	**(91 450)**
Gross Rate of Return (4th Quarter)	**(10.94)**	**(2.04)**	**(4.64)**	**N/A**	**(15.32)**	**(5.97)**	**(6.87)**	**(8.66)**
Benchmark Rate of Return (4th Quarter)	**(12.67)**	**(5.32)**	**(8.31)**	**N/A**	**(7.66)**	**(5.06)**	**(7.11)**	**(7.55)**
Out/(Under) Performance (4th Quarter)	**1.73**	**3.28**	**3.67**	**N/A**	**(7.66)**	**(0.91)**	**0.24**	**(1.11)**

IV. PERFORMANCE

8. 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.

9. As shown in Table 5, there was an overall negative rate of return of –2.40% in the fourth quarter, reflecting an underperformance of 50 basis points against the benchmark, and an overall negative rate of return for the calendar year 2000 of –2.25%, reflecting an underperformance of 43 basis points.

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

	Fourth 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 portfolio	1.25	1.22	0.03	5.13	4.71	0.42
Global fixed-interest	4.03	3.54	0.49	8.56	8.11	0.45
Diversified fixed-interest	2.73	4.20	(1.47)	8.98	11.60	(2.62)
Total equities	(8.66)	(7.55)	(1.11)	(13.24)	(12.53)	(0.71)
Overall portfolio gross rate of return	(2.27)	(1.77)	(0.50)	(1.76)	(1.33)	(0.43)
Less expenses	(0.13)	(0.13)	0.00	(0.49)	(0.49)	0.00
Overall portfolio net rate of return	(2.40)	(1.90)	(0.50)	(2.25)	(1.82)	(0.43)

10. Details of the performance of the three-month period to 31 December 2000 are presented in the form of graphs in the Annexes XII, XIII and XVI.

ISO CURRENCY ABBREVIATIONS

CURRENCY CODE	CURRENCY NAME
USD	UNITED STATES DOLLAR
EUR	EURO
JPY	JAPANESE YEN
GBP	POUND STERLING
ARS	ARGENTINE PESO
AUD	AUSTRALIAN DOLLAR
BRL	BRAZILIAN REAL
CAD	CANADIAN DOLLAR
CHF	SWISS FRANC
DKK	DANISH KRONE
EEK	ESTONIAN KROON
EGP	EGYPTIAN POUND
GRD	GREEK DRACHMA
HKD	HONG KONG DOLLAR
HUF	HUNGARIAN FORINT
IDR	INDONESIAN RUPIAH
ILS	ISRAELI SHEKEL
INR	INDIAN RUPEE
KRW	SOUTH KOREAN WON
MXN	MEXICAN PESO
MYR	MALAYSIAN RIGGIT
NOK	NORWEGIAN KRONE
NZD	NEW ZEALAND DOLLAR
PHP	PHILIPPINE PESO
PKR	PAKISTAN RUPEE
PLN	POLISH ZLOTY
SEK	SWEDISH KRONA
SGD	SINGAPORE DOLLAR
THB	THAILAND BAHT
TRL	TURKISH LIRA
ZAR	SOUTH AFRICAN RAND