



**IFAD**  
**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**  
**Executive Board – Seventy-Third Session**

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**REPORT ON IFAD'S INVESTMENT PORTFOLIO FOR THE  
SECOND QUARTER OF 2001**

**I. INTRODUCTION**

1. The following report on IFAD's investment portfolio covers the three-month period ending 30 June 2001 and includes comparative figures for the year to date and earlier years.
2. The report includes sections on asset allocation, investment income, performance, currency composition and risk measurement.

**II. ASSET ALLOCATION**

3. Table 1 indicates the actual allocation of the investment portfolio among various asset classes compared to the policy allocation. In the second quarter of 2001 there was a transfer of USD 49 818 000 equivalent from the global government bonds portfolio to the internally managed portfolio in order to cover disbursements for loans and grants and administrative expenses. The transfer brought the portfolio allocation more in line with the policy allocation.

**Table 1: Summary of Movements in Cash and Investments – Second Quarter 2001**  
(USD '000 equivalent)

	<b>Internally Managed Portfolio</b>	<b>Global Government Bonds</b>	<b>Diversified Fixed-Interest Portfolio</b>	<b>Total Equities</b>	<b>Overall Portfolio</b>
<b>Opening balance (31 March 2001)</b>	<b>6 750</b>	<b>863 719</b>	<b>211 991</b>	<b>819 270</b>	<b>1 901 730</b>
Gross investment income (loss)	571	(6 442)	336	46 564	41 029
Securities lending income	-	32	-	134	166
Fees, charges and taxes	7	(572)	(284)	(2 125)	(2 974)
<b>Net investment income (loss)</b>	<b>578</b>	<b>(6 982)</b>	<b>52</b>	<b>44 573</b>	<b>38 221</b>
Transfers due to allocation	49 818	(49 818)	-	-	-
Transfers due to expenses	(2 673)	531	295	1 847	-
<b>Transfers between portfolios</b>	<b>47 145</b>	<b>(49 287)</b>	<b>295</b>	<b>1 847</b>	<b>-</b>
Other net flows	11 740	-	-	-	11 740
Movements on exchange	(751)	(14 151)	(134)	(8 819)	(23 855)
<b>Closing balance (30 June 2001)</b>	<b>65 462</b>	<b>793 299</b>	<b>212 204</b>	<b>856 871</b>	<b>1 927 836</b>
Actual allocation (%)	3.4	41.1	11.0	44.5	100.0
Policy allocation (%)	5.0	40.0	10.0	45.0	100.0
<b>Difference in allocation (%)</b>	<b>(1.6)</b>	<b>1.1</b>	<b>1.0</b>	<b>(0.5)</b>	<b>-</b>

### III. INVESTMENT INCOME

4. Table 2 shows investment income for the four major asset classes. Aggregate net investment income in the second quarter of 2001 amounted to USD 38 221 000 equivalent, which, added to the loss of USD 60 054 000 equivalent in the first quarter of 2001, amounts to a loss of USD 21 833 000 equivalent for the first six months of 2001 (2000 – a loss of USD 47 850 000 equivalent).

5. Global equity markets rebounded early in the second quarter because of increased possibilities of economic recovery; however renewed worries over company earnings had a negative impact later in the quarter. Long-term interest rates rose strongly at the beginning of the period on the expectation of improving economic prospects and an end to the monetary easing. As a result, government bonds performed negatively with the exception of bonds denominated in Japanese yen.

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

Portfolio	2nd Quarter 2001	1st Quarter 2001	Year to Date 2001	2000	1999	1998	1997
Internally managed	578	413	991	3 654	3 114	4 834	18 633
Global government bonds	(6 982)	18 027	11 045	74 625	(43 977)	195 506	154 228
Diversified fixed-interest	52	6 130	6 182	17 615	3 832	6 130	-
Total equities	44 573	(84 624)	(40 051)	(143 744)	231 500	(18 571)	(8 921)
<b>Overall portfolio</b>	<b>38 221</b>	<b>(60 054)</b>	<b>(21 833)</b>	<b>(47 850)</b>	<b>194 469</b>	<b>187 899</b>	<b>163 940</b>

6. Table 3 shows net income for the various sectors of the fixed-interest portfolio for the second quarter of 2001. The government bonds portfolio performed negatively and slightly underperformed its benchmark. The underperformance was due to underweighting of the Japanese bond market, which outperformed other markets, and the portfolio's slightly longer duration compared to its benchmark. The diversified fixed-interest portfolio performed positively, but slightly underperformed its benchmark due to security selection.

**Table 3: Investment Income on the Fixed-Interest Portfolio – Second Quarter 2001**  
(USD '000 equivalent)

	Internally Managed Portfolio	Global Government Bonds	Diversified Fixed-Interest Portfolio	Total Fixed-Interest Portfolio
Interest from fixed-interest investments and bank accounts	571	10 019	3 615	14 205
Dividend income from equities	-	-	-	-
Realized capital gains (losses)	-	670	(1 216)	(546)
Unrealized capital losses	-	(17 131)	(2 063)	(19 194)
<b>Subtotal: Gross investment income (loss)</b>	<b>571</b>	<b>(6 442)</b>	<b>336</b>	<b>(5 535)</b>
Securities lending income	-	32	-	32
Investment manager fees	-	(332)	(200)	(532)
Custody fees	(22)	(92)	(61)	(175)
Financial advisory and other investment management fees	-	(139)	(34)	(173)
Taxes	-	(1)	-	(1)
Other investment income/expenses	29	(8)	11	32
<b>Net investment income (loss)</b>	<b>578</b>	<b>(6 982)</b>	<b>52</b>	<b>(6 352)</b>
<b>Gross rate of return (2nd quarter) (%)</b>	<b>0.98</b>	<b>(0.79)</b>	<b>0.16</b>	<b>(0.51)</b>
<b>Benchmark rate of return (2nd quarter) (%)</b>	<b>0.62</b>	<b>(0.54)</b>	<b>0.51</b>	<b>(0.28)</b>
<b>Out (under) performance (2nd quarter)</b>	<b>0.36</b>	<b>(0.25)</b>	<b>(0.35)</b>	<b>(0.23)</b>

7. Table 4 shows the net income for the various mandates of the equities portfolio for the second quarter of 2001. All equity mandates showed positive returns with North American and emerging market equities showing the strongest returns. Japanese and European equities shared the lowest

returns due to their relatively weaker economic expectations. Globally, on an industry sector basis, information technology stocks showed the strongest returns, while telecommunications stocks fell notably. With the exception of Japanese and European equities, all equity mandates outperformed their respective benchmarks. The underperformance in Japanese equities was attributable to sector allocation as well as stock selection, while the underperformance in European equities was mainly due to the overweight in the European small cap mandate's technology holdings.

**Table 4: Investment Income on the Equities Portfolio – Second Quarter 2001**  
(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	-	41	73	97	6	16	5	238
Dividend income from equities	55	779	1 323	-	569	1 584	1 035	5 345
Realized capital losses	(1 000)	(790)	(3 150)	-	(5 187)	(2 765)	(6 571)	(19 463)
Unrealized capital gains	1 954	5 110	10 318	-	26 111	1 819	15 132	60 444
<b>Subtotal: Gross investment income</b>	<b>1 009</b>	<b>5 140</b>	<b>8 564</b>	<b>97</b>	<b>21 499</b>	<b>654</b>	<b>9 601</b>	<b>46 564</b>
Securities lending income	7	13	1	-	64	14	35	134
Investment manager fees	(146)	(143)	(246)	-	(306)	(190)	(244)	(1 275)
Custody fees	(14)	(38)	(82)	(13)	(76)	(41)	(87)	(351)
Financial advisory and other investment management fees	(19)	(14)	(12)	(2)	(31)	(25)	(30)	(133)
Taxes	-	(53)	(45)	-	(49)	(95)	(122)	(364)
Other investment income/expenses	-	1	3	-	-	(6)	-	(2)
<b>Net investment income</b>	<b>837</b>	<b>4 906</b>	<b>8 183</b>	<b>82</b>	<b>21 101</b>	<b>311</b>	<b>9 153</b>	<b>44 573</b>
<b>Gross rate of return (2nd quarter) (%)</b>	<b>0.88</b>	<b>5.96</b>	<b>11.58</b>	<b>NA</b>	<b>11.33</b>	<b>0.42</b>	<b>5.09</b>	<b>5.68</b>
<b>Benchmark rate of return (2nd quarter) (%)</b>	<b>1.89</b>	<b>4.01</b>	<b>7.80</b>	<b>NA</b>	<b>8.09</b>	<b>0.75</b>	<b>3.85</b>	<b>4.33</b>
<b>Out (under) performance (2nd quarter)</b>	<b>(1.01)</b>	<b>1.95</b>	<b>3.78</b>	<b>NA</b>	<b>3.24</b>	<b>(0.33)</b>	<b>1.24</b>	<b>1.35</b>

Note: NA = Not applicable

#### 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 indexes used are the JP Morgan Global Government Bonds Index and the Morgan Stanley Capitalization Index for global equities.

9. As shown in Table 5, there was an overall positive return of 2.02 % in the second quarter of 2001, reflecting an outperformance of 46 basis points against the benchmark. The quarter's overall outperformance was due to the outperformance in equities.

**Table 5: Overall Performance Compared with Benchmarks – Second Quarter 2001**

Portfolio	Second Quarter 2001			Year to Date 2001		
	Rate of Return %		Out (Under) Performance	Rate of Return %		Out (Under) Performance
	Portfolio	Benchmark		Portfolio	Benchmark	
Internally managed	0.98	0.62	0.36	2.39	1.59	0.80
Global government bonds	(0.79)	(0.54)	(0.25)	1.27	1.43	(0.16)
Diversified fixed-interest	0.16	0.51	(0.35)	3.29	3.61	(0.32)
Total equities	5.68	4.33	1.35	(3.63)	(3.84)	0.21
Overall portfolio gross rate of return	2.17	1.71	0.46	(0.71)	(0.73)	0.02
Less expenses	(0.15)	(0.15)	-	(0.27)	(0.27)	-
<b>Overall portfolio net rate of return</b>	<b>2.02</b>	<b>1.56</b>	<b>0.46</b>	<b>(0.98)</b>	<b>(1.00)</b>	<b>0.02</b>

10. Details of the performance in the six-month period through 30 June 2001 are presented in the form of a graph in the Annex.

### V. CURRENCY COMPOSITION

11. 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 commitments for the undisbursed loans and grants denominated in SDRs are matched, to the extent possible, 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.

12. The Executive Board of the International Monetary Fund (IMF) reviews the SDR valuation basket every five years 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.

13. 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 in terms of both the old and the new units, which became effective on 1 January 2001. The units applicable, together with their weights as at 1 January and 30 June 2001, are shown in Table 6.

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

Currency	1 January 2001		30 June 2001	
	Units	Percentage Weight	Units	Percentage Weight
USD	0.577	44.3	0.577	46.3
EUR	0.426	30.4	0.426	29.0
JPY	21.000	14.0	21.000	13.6
GBP	0.0984	11.3	0.0984	11.1
<b>Total</b>		<b>100.0</b>		<b>100.0</b>

14. As at 30 June 2001, assets in the form of cash, investments, promissory notes and amounts receivable from contributors under the Fourth Replenishment amounted to USD 2 202 558 000 equivalent (31 December 2000 – USD 2 442 485 000 equivalent), as indicated in Table 7 below.

**Table 7: Currency Composition of Assets at 30 June 2001**  
(USD '000 equivalent)

	Cash and Investments	Promissory Notes	Amounts Receivable from Contributors	Total
USD	799 769	70 297	19 928	889 994
EUR	424 732	70 284	-	495 016
JPY	219 964	15 116	-	235 080
GBP	201 248	22 636	-	223 884
Other	282 123	76 461	-	358 584
<b>Total</b>	<b>1 927 836</b>	<b>254 794</b>	<b>19 928</b>	<b>2 202 558</b>

15. Holdings of assets denominated in currencies not included in the SDR valuation basket amounted to USD 358 584 000 equivalent at 30 June 2001 (31 December 2000 – USD 388 305 000 equivalent). These are allocated to currency groups, as indicated in Table 8.

**Table 8: Allocation of Assets to Currency Groups at 30 June 2001**  
(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	889 994	181 488	-	67 926	2 102	1 141 510
EUR	495 016	-	107 068	-	-	602 084
JPY	235 080	-	-	-	-	235 080
GBP	223 884	-	-	-	-	223 884
<b>Total</b>	<b>1 843 974</b>	<b>181 488</b>	<b>107 068</b>	<b>67 926</b>	<b>2 102</b>	<b>2 202 558</b>

16. The alignment of the assets by currency group against the SDR valuation basket at 30 June 2001 is shown in Table 9. The balance of the General Reserve at 30 June 2001 and the commitment for grants denominated in United States dollars at 30 June 2001 amounted to USD 95 000 000 and USD 62 008 000, respectively.

**Table 9: Alignment of Assets per Currency Group with the Currency Composition of the SDR Valuation Basket at 30 June 2001**  
(USD '000 equivalent)

Currency Group	Amount per Currency Group	Less: Commitment Denominated in USD	Net Assets per Currency Group	Net Assets %	Compare SDR Weights % 30.06.2001
USD	1 141 510	(157 008)	984 502	48.1	46.3
EUR	602 084	-	602 084	29.4	29.0
JPY	235 080	-	235 080	11.5	13.6
GBP	223 884	-	223 884	11.0	11.1
<b>Total</b>	<b>2 202 558</b>	<b>(157 008)</b>	<b>2 045 550</b>	<b>100.0</b>	<b>100.0</b>

17. As at 30 June 2001, there were shortfalls mainly in currency group holdings of Japanese yen and currency group excess holdings of United States dollars and euro. The shortfall in holdings of Japanese yen reflects the aggregate, unhedged, underweight position for bonds denominated in yen in the global government bonds portfolio. The excess holding of United States dollars reflects mainly an overweight of United States equities in the global equities portfolio.



## VI. RISK MEASUREMENT

18. The investment portfolio is subject to fluctuations in returns due to economic and market conditions. Historically, different asset classes have shown different levels of volatility, often referred to as 'risk'. Volatility is measured in terms of standard deviation of portfolio returns from their mean. The standard deviation of IFAD's current overall policy allocation as of 30 June 2001 is 6.9%. This means that with a 67% probability, the average annual return will fall within the range of +/- 6.9% of the target rate of return of the portfolio.

19. Value-at-risk (VaR) is the measure of risk that IFAD uses to estimate the maximum amount the portfolio could gain or lose over a three-month time horizon, with a 95% confidence level. This is calculated on both the policy allocation and the actual portfolio, taking into account the correlation between the asset classes composing the portfolio.

20. The VaR of IFAD's investment portfolio and of the corresponding policy allocation is shown in Table 10. The figures indicate that the risk associated with the actual portfolio is consistently lower than the policy allocation.

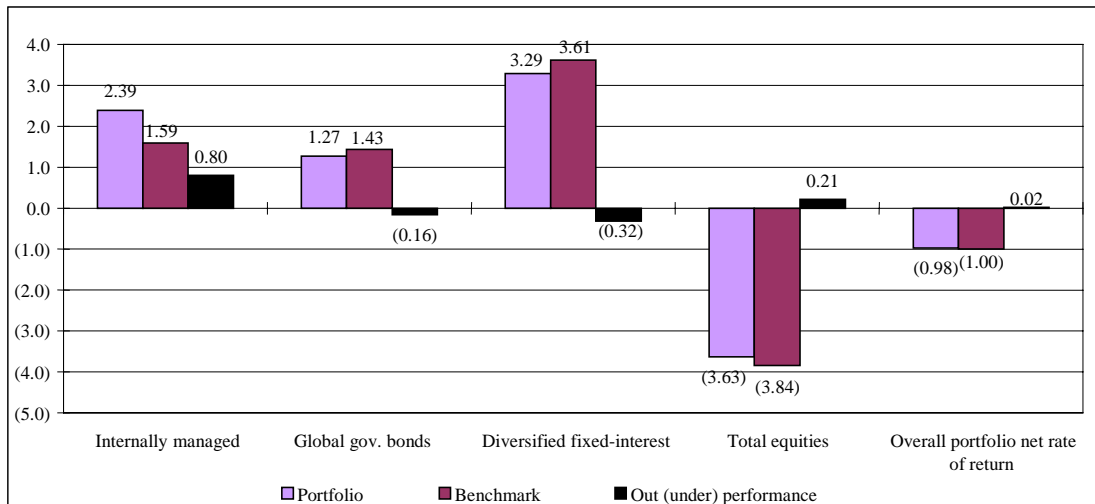
**Table 10: Value-at-Risk (VaR)**

Date	Portfolio		Policy	
	VaR %	Amount USD '000	VaR %	Amount USD '000
30 June 2001	5.6	109 000	6.1	117 700
31 March 2001	5.3	100 700	6.0	114 200
31 December 2000	5.3	108 700	5.9	121 200



### PERFORMANCE YEAR TO DATE

#### OVERALL PORTFOLIO



#### EQUITIES PORTFOLIO

