Distribution: Restricted | EB 2002/75/R.3/Rev.1 | 23 April 2002
Original: English | Agenda Item 3(b)(i) | English

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

Rome, 22-23 April 2002

REPORT ON IFAD'S INVESTMENT PORTFOLIO FOR 2001

I. INTRODUCTION

1. The following report on IFAD's investment portfolio covers the year ending 31 December 2001 and includes comparative figures for the year ending 31 December 2000 and earlier years. In addition, Annex XX includes a report on the performance of the investment portfolio during the fourth quarter of 2001.

2. The report comprises the following seven sections: highlights, investment conditions, asset allocation and investment policy, investment income, rate of return and performance comparison, composition of the portfolio and risk measurement.

II. HIGHLIGHTS

3. Investments in 2001 reflected the downturn in the global economy, and the further deterioration following the terrorist attacks on the United States in September 2001. Central banks cut interest rates significantly during the year. The first signs of an economic recovery started to emerge by the end of the year, suggesting a milder downturn than expected.

4. IFAD's fixed-interest investment portfolio was favoured by the economic conditions during most of the year. It achieved a rate of return of 5.62%, underperforming its benchmark by 15 basis points. IFAD's equities portfolio, on the other hand, was negatively affected by the economic conditions, although there was a significant rebound in the fourth quarter as market sentiment improved on the signs of an economic recovery. The equities portfolio returned -10.38% in 2001, slightly outperforming its benchmark by three basis points.

Document #: 255465
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5. In aggregate, net investment income amounted to a loss of 42 982 000 United States dollars (USD) equivalent (excluding income from Supplementary Funds amounting to USD 125 000 equivalent, as described in paragraph 47). This represented an average rate of return of -2.26% and an average underperformance of nine basis points against the benchmark. The investment income and rate of return show a loss for the second consecutive year. This 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 two most recent periods. In 1999-2001, in fact, the average real rate of return was -0.8% compared to a return of 3.0% in the period 1998-2000.

6. The amount of the investment portfolio decreased from USD 2 068 191 000 equivalent at the end of 2000 to USD 1 917 089 000 equivalent at the end of 2001. 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. In 2001, a review of IFAD's investment policy was entrusted to three highly qualified experts selected from the three Lists of Member States. Following the submission of their report to the Seventy-Third Session of the Board in September 2001, the President undertook to formulate a new investment policy. At the Seventy-Fourth Session of the Board in December 2001, a broad consensus was reached to reduce investment in equities to a level of 10% of the investment portfolio. The implementation of the new policy began in the first quarter of 2002.

III. INVESTMENT CONDITIONS

8. This section reviews the economic and investment environment prevailing in 2001.

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 United States, Japan, the euro-zone countries and the United Kingdom.

10. After growing by 4.1% in 2000, the United States economy grew by an estimated 1.2% in 2001. The economy fell into recession in March 2001, as measured by the National Bureau of Economic Research, and deteriorated further in September following the terrorist attacks on the United States. Business spending fell notably during the year as weaker corporate profits prompted businesses to cut back on their spending. Consumer spending generally remained strong, although it initially cooled after September's attacks. Lower interest rates, tax cuts, significant government spending, discounts and zero-interest financing on cars fuelled a strong rebound in consumer spending and contributed to a positive growth in the fourth quarter of 2001. Growth in 2002 is forecast at 2.7%.

11. The Japanese economy grew by 2.2% in 2000 and contracted by an estimated 0.2% in 2001. Exports, residential construction and public investment declined in 2001, while business and consumer spending remained modest. Non-performing bank loans and continued deflation remain major problems in the Japanese economy. The forecast for growth in 2002 is -1.3%.

12. In the euro zone, the economy grew by 3.4% in 2000 and slowed to an estimated 1.5% in 2001 as weakened exports prompted companies to cut back on investment. Consumer spending, although weakened, helped sustain growth. The euro zone as a whole probably avoided recession in 2001, but the zone's largest economy, Germany, was technically in recession during the latter half of the year as its domestic spending contracted despite sizeable tax cuts. The forecast for growth in 2002 in the euro zone is +1.0%.

13. In the United Kingdom, the economy grew by 3.0% in 2000 and by an estimated 2.4% in 2001. The economy held up strongly in 2001, thanks to consumer spending, but registered a zero-growth in the last quarter as manufacturers cut production following the slowdown in continental Europe, Japan and the United States. The continued strength of the pound sterling (GBP) against the euro (EUR) also remained a significant factor. The forecast for growth in 2002 is 2.0%.

14. The global economy grew by 3.9% in 2000 and slowed to an estimated 1.3% in 2001. The forecast for 2002 is 1.6%. The Latin American economies grew by 3.9% in 2000 but slowed to an estimated 0.4% in 2001 with a growth forecast of 0.1% for 2002. Asia's emerging economies grew by 7.0% in 2000 and by an estimated 3.7% in 2001, with growth forecast of 5.0% for 2002. Global growth forecasts reflect the expectation of an economic recovery starting in 2002.

Inflation

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

16. In 2001, inflation fell in the United States, reflecting falling energy prices and a weaker demand as the economy contracted. Inflation is expected to decline further due to a lack of inflationary pressures.

17. Japan's prices fell for the third consecutive year. The Japanese Government recently released an anti-inflation package. However, current forecasts expect the deflationary trend to continue in 2002.

18. In the euro zone, inflation declined only towards the end of 2001 as food prices in particular kept rising. Inflation is likely to fall due to decreasing food and energy prices and a possible price convergence resulting from the general use of the euro.

19. In the United Kingdom, inflation has stayed largely below the central bank's target as energy prices have fallen and competition held prices down. Inflation forecasts are only predicting a marginal pick-up.

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. In 2001, unemployment increased in the United States and Japan as both countries fell into recession. In the euro zone and the United Kingdom, unemployment rates declined somewhat.

22. Although the global economy shows signs of stabilizing, unemployment rates are broadly expected to increase somewhat as companies struggle to improve profits.

Monetary Policies

23. Annex IV shows the evolution of central bank interest rates for countries whose currencies are included in the SDR valuation basket.

24. The United States Federal Reserve Bank lowered the federal funds rate eleven times in 2001, from 6.50% to a 40-year low of 1.75%. The aggressive rate cuts were in response to the economy cooling more abruptly than anticipated and to support the already weakened business and consumer confidence after September's terrorist attacks on the United States.

25. In 2001, the Bank of Japan cut its overnight lending rate in February by ten basis points to 0.15% and in March returned to a zero-rate policy through the use of monetary easing. The zero-rate policy, previously in place until August 2000, is to be maintained until consumer prices clearly register at least a zero percent change year on year.

26. The European Central Bank lowered its refinancing rate in four steps from 4.75 to 3.25% in 2001, as economic growth slowed faster than anticipated and consumer and business confidence were threatened after the terrorist attacks on the United States. Further rate cuts were hampered by inflation, which remained above the central bank's target.

27. The Bank of England lowered its base rate in seven steps during the year, from 6.00 to 4.00%, to reduce the impact of the global economic slowdown and to strengthen consumer and business confidence after September's attacks in the United States.

Exchange Rates

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

29. The United States dollar appreciated against virtually all currencies in 2001, with the exception of a weakening mainly in the third quarter when the economy contracted in the United States. Among major currencies, the Japanese yen (JPY) weakened especially, as it was allowed to depreciate in the last quarter of the year.

Fiscal Policy

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

31. In the United States, the budget surplus decreased in 2001 as corporate tax payments were eroded due to the economic downturn. The federal budget may show a continued, modest surplus if the economy continues to improve. Japan's budget deficit continued to increase in 2001, and some further increase is forecast. Most euro-zone countries showed a deficit, and their aggregated deficit is expected to remain around the same level over the next few years. The United Kingdom continued to show a surplus, but increased spending on public services could have an impact in coming years.

B. Financial Market Background

32. Annex VII shows the evolution of short- and long-term interest rates for the countries whose currencies are included in the SDR valuation basket. In the United States, long-term interest rates ended the year approximately unchanged, while long-term interest rates moved slightly higher in the euro zone and the United Kingdom. Long-term interest rates fluctuated significantly during the year, as markets priced in the likelihood of recession, and rose at the end of the year on expectations of an economic recovery. In Japan, long-term interest rates generally fell during the first half of the year, reacting positively to possible cuts in future bond issuance, and trended upward again in the latter half on concerns over the weakened fiscal position and the downgrading of Japan's credit rating by Standard & Poor's.

33. Short-term interest rates generally fell in 2001 as central banks eased monetary policies. Short-term interest rates in the United States showed the steepest decline, while interest rates in Japan had already approached zero by the end of the first quarter.

34. Annex VIII shows bond market returns for countries included in the J.P. Morgan Global Government Bonds Traded Index. The benchmark index includes both coupon and capital gains and losses, in line with market practice. Most bond markets posted strong positive returns as short- and mid-term bonds in particular rallied on easing in monetary policies. The bond markets of Canada, the United States and a few euro-zone countries outperformed the overall market, while Sweden, the United Kingdom and Japan showed the lowest returns.

35. Annex IX shows the performance of the J.P. Morgan Global Government Bonds Traded Index (reweighted for currency-matching purposes) in local currency terms compared with the Salomon Brothers Broad Investment Grade (BIG) Index. The latter includes both United States Treasury bonds and 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 global government bond markets in 2001. This was due to their large portion of United States Treasury bonds, which outperformed most government bond markets, and due to strong performance of corporate and emerging markets bonds, especially in the fourth quarter when the economic outlook started to improve and investors began looking for higher yields.

36. Annex X shows the development of the six equity markets in which IFAD has invested: Japan, Asia and Australasia (excluding Japan), emerging markets, North America, Europe and global equities. Global equity markets generally performed negatively in 2001, although there were temporary rebounds mainly in January and April, spurred by aggressive interest rate cuts especially in the United States, and finally a more sustained rebound in the fourth quarter as market sentiment improved. On a geographical basis, only the emerging markets reached a positive return for the overall year, followed by the Asian and Australasian markets, which nearly broke even. On an industry-sector basis, technology and telecommunication stocks continued last year's underperformance, while consumer discretionary stocks showed strongly positive returns.

C. Market Outlook

37. The United States economy is believed to be close to a turning point, helped by the series of eleven interest rate cuts in 2001. The downturn appears to have been milder than expected and hence the rebound is likely to be less pronounced. This suggests that the central bank may keep the federal funds rate low for still some time.

38. The euro zone and the United Kingdom are also seeing more signs of improving economic conditions, although the signs are less clear than in the United States. Central banks are not expected to cut interest rates further and will probably withhold from increasing rates until a recovery is clearly underway.

39. In Japan, leading economic indicators are suggesting that the recession could soon be coming to an end. Growing evidence that the United States is emerging from recession is also fuelling export expectations, which are further supported by the weaker yen.

40. After trending downward during the beginning of year 2002, an equity rally commenced by the end of February and swept across world equity markets as investors responded to the recent string of stronger economic data. The extent and sustainability of the rally remains to be seen.

IV. ASSET ALLOCATION AND INVESTMENT POLICY

41. Table 1 shows the movements affecting the investment portfolio's four major asset classes in 2001 and compares the portfolio's actual asset allocation to the policy allocation. An amount of USD 49 818 000 equivalent was transferred from the global government bonds portfolio to the internally managed portfolio in order to cover disbursements for loans and grants and administrative expenses. An amount of USD 14 165 000 equivalent was transferred from the equities portfolio to the internally managed portfolio, due to the liquidation in August 2001 of the North American micro capitalization equities mandate. The liquidation of the mandate helped reduce overall portfolio volatility, and gains of USD 4 165 000 equivalent were realized.

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

	Internally Managed Portfolio	**Global Government Bonds**	**Diversified Fixed-Interest**	**Equities**	**Overall Portfolio**
Opening balance (31 December 2000)	**33 902**	**887 924**	**205 541**	**940 824**	**2 068 191**
Gross investment income/(loss)	2 210	43 516	14 766	(93 830)	(33 338)
Income from securities lending and commission recapture	-	138	17	686	841
Fees, charges and taxes	(160)	(2 183)	(1 000)	(7 142)	(10 485)
Net investment income /(loss)	**2 050**	**41 471**	**13 783**	**(100 286)**	**(42 982)**
Transfers due to allocation	63 983	(49 818)	-	(14 165)	-
Transfers due to expenses	(8 970)	1 874	975	6 121	-
Transfers between portfolios	**55 013**	**(47 944)**	**975**	**(8 044)**	-
Other net flows	(20 413)	-	-	-	(20 413)
Movements on exchange	(532)	(39 967)	(192)	(47 016)	(87 707)
Closing balance (31 December 2001)	**70 020**	**841 484**	**220 107**	**785 478**	**1 917 089**
Actual allocation (%)	3.6	43.9	11.5	41.0	100.0
Policy allocation (%) [1/]	5.0	40.0	10.0	45.0	100.0
Difference in allocation (%)	(1.4)	3.9	1.5	(4.0)	-

[1/] The policy allocation was revised in December 2001, but the implementation of the new policy allocation only began in the first quarter of 2002.

42. Following the Seventy-Second Session of the Executive Board in April 2001, it was agreed that a review of IFAD's investment policy would be entrusted to three highly qualified experts selected from the three Lists of Member States. The group began its review in June 2001 and presented a report to the President of IFAD on 6 July 2001.

43. The report was submitted to the Seventy-Third Session of the Executive Board together with management's comments as part of document EB 2001/73/R.6, "Report of the President on IFAD's Investment Policy".

44. The report and management's comments thereon were discussed at a seminar held at the time of the Seventy-Third Session of the Board. In the light of discussions at the seminar, the President undertook to formulate a new investment policy and to consult with the List Convenors prior to the Seventy-Fourth Session of the Board.

45. At the Seventy-Fourth Session of the Board, there was an in-depth discussion on IFAD's investment policy (document EB 2001/74/R.4/Rev.1) following a seminar held the day before the Session. While different views were expressed on the central issue of exposure to equities, a broad consensus was reached to reduce investment in equities to a level of 10% of the investment portfolio.

46. The implementation of the new policy began in the first quarter of 2002, and a separate Executive Board report has been prepared on this issue.

V. INVESTMENT INCOME

47. According to IFAD's financial statements for 2001, investment income amounted to a loss of USD 42 857 000 equivalent. This amount takes into account income from Supplementary Funds amounting to USD 125 000 (2000 – USD 884 000).

48. Excluding the income deriving from Supplementary Funds, net investment income in 2001 amounted to a loss of USD 42 982 000 equivalent (2000 – loss USD 47 850 000). 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 2 shows net investment income for the year 2001 and previous periods for the four major asset classes.

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

Portfolio	**2001**	**2000**	**1999**	**1998**	**1997**
Internally managed	2 050	3 654	3 114	4 834	18 633
Global government bonds	41 471	74 625	(43 977)	195 506	154 228
Diversified fixed-interest	13 783	17 615	3 832	6 130	-
Total equities	(100 286)	(143 744)	231 500	(18 571)	(8 921)
Overall portfolio	**(42 982)**	**(47 850)**	**194 469**	**187 899**	**163 940**

49. Table 3 shows details of the net investment income earned during the period under review and from 1997 to 2000.

Table 3: Investment Income
(USD '000 equivalent)

	2001			2000 Overall Portfolio	1999 Overall Portfolio	1998 Overall Portfolio	1997 Overall Portfolio
	Total Fixed-Interest Portfolio	**Total Equity Portfolio**	**Overall Portfolio**				
Interest from fixed-interest investments and bank accounts	58 356	885	59 241	68 819	90 253	112 668	128 779
Dividend income from equities	-	13 614	13 614	11 760	8 684	5 654	94
Realized capital gains/(losses)	12 166	(86 959)	(74 793)	8 264	3 861	40 846	21 535
Unrealized capital gains/(losses)	(10 030)	(21 370)	(31 400)	(125 724)	101 272	36 111	19 657
Subtotal: Gross investment income/(loss)	**60 492**	**(93 830)**	**(33 338)**	**(36 881)**	**204 070**	**195 279**	**170 065**
Income from securities lending and commission recapture	155	686	841	440	539	905	463
Investment manager fees	(2 210)	(4 827)	(7 037)	(7 993)	(7 192)	(5 660)	(3 708)
Custody fees	(698)	(1 405)	(2 103)	(2 581)	(1 870)	(1 469)	(1 066)
Financial advisory and other investment management fees	(385)	(303)	(688)	(515)	(508)	(610)	(683)
Taxes	-	(606)	(606)	(167)	(286)	(129)	(1 131)
Other investment expenses	(50)	(1)	(51)	(153)	(284)	(417)	-
Net investment income/(loss)	**57 304**	**(100 286)**	**(42 982)**	**(47 850)**	**194 469**	**187 899**	**163 940**

50. The fixed-interest portfolio consists of three sub-portfolios: the internally managed portfolio and the externally managed global government bonds and diversified fixed-interest portfolios. In aggregate, the net income from fixed-interest investments in 2001 amounted to USD 57 304 000 equivalent, as shown in Table 4. All sections of the fixed-interest portfolio contributed positively to income.

Table 4: Investment Income on the Fixed-Interest Portfolio – Year 2001
(USD '000 equivalent)

	Internally Managed Portfolio	Global Government Bonds	Diversified Fixed-Interest	Total Fixed-Interest Portfolio
Interest from fixed-interest investments and bank accounts	2 210	41 855	14 291	58 356
Dividend income from equities	-	-	-	-
Realized capital gains/(losses)	-	14 703	(2 537)	12 166
Unrealized capital gains/(losses)	-	(13 042)	3 012	(10 030)
Subtotal: Gross investment income	**2 210**	**43 516**	**14 766**	**60 492**
Income from securities lending and commission recapture	-	138	17	155
Investment manager fees	-	(1 520)	(690)	(2 210)
Custody fees	(107)	(365)	(226)	(698)
Financial advisory and other investment management fees	-	(309)	(76)	(385)
Taxes	-	-	-	-
Other investment expenses	(53)	11	(8)	(50)
Net investment income	**2 050**	**41 471**	**13 783**	**57 304**

51. The equities portfolio comprised seven externally managed sub-portfolios by the end of 2001. These were Japanese equities, Asian and Australasian equities, emerging markets equities, a currency overlay mandate, North American equities, European equities and global equities. In aggregate, the net income from equities investments in 2001 amounted to a loss of USD 100 286 000 equivalent, as shown in Table 5. Four sub-portfolios contributed negatively: European equities, followed by global equities, North American equities and Japanese equities. Their negative contribution was only partly offset by three other sub-portfolios: emerging markets equities, Asian and Australasian equities and the currency overlay mandate.

Table 5: Investment Income on the Equities Portfolio – Year 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	-	129	306	358	16	52	24	885
Dividend income from equities	858	2 823	2 190	-	2 268	2 737	2 738	13 614
Realized capital (losses)	(5 362)	(3 244)	(12 417)	-	(17 957)	(17 427)	(30 552)	(86 959)
Unrealized capital gains/(losses)	(11 137)	1 608	16 898	-	(3 231)	(22 728)	(2 780)	(21 370)
Subtotal: Gross investment income/(loss)	**(15 641)**	**1 316**	**6 977**	**358**	**(18 904)**	**(37 366)**	**(30 570)**	**(93 830)**
Income from securities lending and commission recapture	41	85	42	-	255	91	172	686
Investment manager fees	(534)	(557)	(952)	-	(1 116)	(731)	(937)	(4 827)
Custody fees	(50)	(160)	(331)	(45)	(290)	(187)	(342)	(1 405)
Financial advisory and other investment management fees	(42)	(31)	(27)	(5)	(71)	(57)	(70)	(303)
Taxes	-	(116)	(94)	-	-	(245)	(151)	(606)
Other investment expenses	-	(5)	(2)	-	-	7	(1)	(1)
Net investment income/(loss)	**(16 226)**	**532**	**5 613**	**308**	**(20 126)**	**(38 488)**	**(31 899)**	**(100 286)**

52. Annex XI includes a comparison of gross income for the major portions of the portfolio since 1997 when the diversification into equities started, indicating the ratios of income that has been earned through capital gains, interest income and dividends. This shows that, over a five-year period, capital gains for the fixed-interest portfolio have amounted to USD 67 002 000 equivalent, while capital losses for the equities portfolio have amounted to USD 67 373 000 equivalent. The aggregated capital loss is USD 371 000 equivalent, hence the overall gross income of USD 499 195 000 corresponds mostly to interest and dividend income for the five-year period.

VI. RATE OF RETURN AND PERFORMANCE COMPARISON

Overall Rate of Return

53. There was an overall negative return of -2.26% in year 2001 (2000 – negative -2.25%), net of investment expenses and movements on exchange. Returns in 2001 were affected by negative performance in equities markets in the first and third quarters of the year. Fixed-interest markets contributed positively, despite a negative performance in the second quarter.

Portfolio Performance Compared with Benchmark

54. The performance of the various mandates of the investment portfolio is measured against preassigned independent benchmarks, indicating the return that would be expected through passive management of defined sectors of the market. The principal indexes used are the J.P. Morgan Global Government Bonds Traded Index and the Morgan Stanley Capitalization Index for global equities.

55. Table 6 compares the return of each major section of the portfolio with the appropriate benchmark rate of return. The overall portfolio showed an underperformance of nine basis points in 2001 (2000 – underperformance of 43 basis points). This information is presented graphically in Annex XII.

Table 6: Performance Compared with Benchmarks – Year 2001

Portfolio	Rate of Return %		Out/(Under) Performance
	Portfolio	Benchmark	
Internally managed portfolio	3.98	3.98	0.00
Global government bonds	5.28	5.27	0.01
Diversified fixed-interest	7.19	8.52	(1.33)
Total fixed-interest	**5.62**	**5.77**	**(0.15)**
Japanese equities	(13.76)	(18.85)	5.09
Asian and Australasian equities (excluding Japan)	1.73	(0.20)	1.93
Emerging markets equities	9.81	5.82	3.99
North American equities	(8.51)	(9.15)	0.64
European equities	(21.60)	(16.19)	(5.41)
Global equities	(14.24)	(13.17)	(1.07)
Total equities	**(10.38)**	**(10.41)**	**0.03**
Overall portfolio gross rate of return	**(1.77)**	**(1.68)**	**(0.09)**
Less expenses	**(0.49)**	**(0.49)**	**0.00**
Overall portfolio net rate of return	**(2.26)**	**(2.17)**	**(0.09)**

56. As indicated in Table 6, the overall return for the fixed-interest portfolio was 5.62%. This is compared to the aggregate benchmark return of 5.77%, resulting in an underperformance of 15 basis points for the total fixed-interest portfolio.

57. The global government bonds portfolio returned 5.28% in 2001, slightly outperforming its benchmark by one basis point. A performance attribution for the portfolio is shown in Annex XIII for the total year and by quarter. In summary:

- Some ten basis points of outperformance were due to managers' overweight in United States government bonds, which outperformed overall bond markets.
- Some ten basis points of negative impact arose from bond selection and duration. Managers' long duration in the United States and euro bond markets contributed negatively as long-term interest rates in the United States and the euro zone remained unchanged or were at a higher level by year end. The portfolio's overall duration, compared to benchmark, is shown in Table 7.

Table 7: Duration of Global Government Bonds and Diversified Fixed-Interest

(Years)

	31 December 2001	31 December 2000
Global government bonds portfolio	6.3	6.3
Global government bonds benchmark	6.0	6.2
Diversified fixed-interest portfolio	4.6	4.5
Diversified fixed-interest benchmark	4.8	4.9

58. The diversified fixed-interest portfolio returned 7.19% in 2001, underperforming its benchmark by 133 basis points. A performance attribution for the diversified fixed-interest portfolio is shown in Annex XIV for the total year and by quarter. In summary:

- Some 100 basis points of underperformance were due to sector allocation, mainly due to managers' diversification into non-United States government bonds, which underperformed United States Treasury bonds.
- Some 130 basis points of underperformance were due to managers' bond selection, including impact from duration and credit quality, and arose mainly from corporate bonds and mortgages and, to a smaller extent, from emerging markets bonds. The negative impact was concentrated in the second quarter and especially in the third quarter, when investor risk aversion and constrained market liquidity impaired valuations of bonds with lower credit quality. This was partly offset in the fourth quarter. The portfolio's overall duration, compared to benchmark, is shown in Table 7 above.
- Some 100 basis points of outperformance remained unattributed, mainly due to timing impact and cash holdings.

59. As was indicated in Table 6, the overall equities portfolio returned -10.38%. This is compared to the aggregate benchmark return of -10.41%, resulting in an outperformance of three basis points for the overall equities portfolio. The Japanese, Asian and Australasian, emerging markets and North American equities mandates outperformed, while the European and global equities mandates underperformed. A performance attribution analysis for the different equity mandates is shown in Annex XV by quarter and aggregated for year 2001. In summary:

- The Japanese equities mandate benefited strongly both from its industry-sector allocation and stock selection. The mandate overweighted the manufacturing sector, which rebounded strongly in the fourth quarter. The mandate also underweighted the poorly performing banking sector and benefited strongly from stock selection in the same sector.
- The Asian and Australasian equities mandate benefited from both its allocation to countries, and stock selection. Stock selection was positive in most markets. The mandate gained on its underweight in China, but this gain was partly offset by overweighting the almost equally underperforming Hong Kong market.
- The emerging markets mandate benefited from stock selection in many countries. Country allocation was less successful, partly due to holdings of cash during equity rallies and low exposure to the mandate's best-performing market, the Republic of Korea.
- North American equities benefited from both industry-sector allocation and stock selection, although some impact remained unattributed. Industry-sector allocation was positive in most sectors, while stock selection was generally positive with the exception of information technology and telecommunications stocks.
- European equities underperformed mainly due to stock selection and, to a smaller extent, country allocation. The overall underperformance largely stemmed from the European small capitalization equities mandate.

- Global equities underperformed on the basis of country allocation in several countries. Managers investing with a growth style contributed more to the underperformance, although the impact was partly offset by value-style managers, which managed to benefit from the prevailing market environment.

60. Nevertheless, in aggregate the performance of IFAD's equities managers was very close to the aggregate benchmark as shown in Annex XXI.

Portfolio Performance Compared with Manager Universe

61. Table 8 shows a comparison of the 2001 performance of IFAD's externally managed mandates against a universe of investment managers provided by IFAD's financial advisors. The comparison uses returns in USD terms 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 precisely match the guidelines used by IFAD. As indicated in Table 8, two mandates of IFAD's investment portfolio showed an outperformance against both the universe and their own benchmarks – the Japanese equities mandate and the Asian Australasian equities mandate (2000 – same mandates). Three mandates showed an underperformance against both the universe and their own benchmarks – emerging markets equities, European equities and global equities (2000 – emerging markets equities, North American equities and global equities).

Table 8: Portfolio Performance Compared with Manager Universe for Year 2001

		Rate of Return % in USD terms [1/]				
Type of Mandate	**Number of Managers in Universe**	**Median Universe Performance**	**IFAD Investment Portfolio**	**IFAD Benchmark**	**IFAD Out/(Under) Performance against Universe**	**IFAD Out/(Under) Performance against Benchmark**
Global government bonds	48	0.80	0.59	0.39	(0.21)	0.20
Diversified fixed-interest	54	5.68	7.09	8.52	1.41	(1.43)
Japanese equities	14	(27.93)	(25.46)	(29.30)	2.47	3.84
Asian and Australasian (excluding Japanese) equities	19	(3.73)	(1.55)	(3.73)	2.18	2.18
Emerging markets equities	66	(1.24)	(9.06)	(5.22)	(7.82)	(3.84)
North American equities	1 253	(6.72)	(8.51)	(9.15)	(1.79)	0.64
European equities	34	(19.64)	(23.80)	(19.70)	(4.16)	(4.10)
Global equities	82	(14.85)	(16.58)	(16.13)	(1.73)	(0.45)
Aggregate [2/]	**1 571**	**(5.11)**	**(5.87)**	**(5.64)**	**(0.76)**	**(0.23)**

[1/] The differences between returns on IFAD's investment portfolio and its benchmarks in this table compared to other tables in this report are due to movements on exchange rates.
[2/] Includes the portion of IFAD's internally managed portfolio.

Real Rate of Return on the Overall Portfolio

62. 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 9 shows the real rate of return of the portfolio from 1994 onwards, and indicates that the target was not met in the two most recent three-year rolling periods, i.e. 1999-2001, in which the average real rate of return was -0.8%, and 1998-2000, in which the average real rate of return was 3.0%.

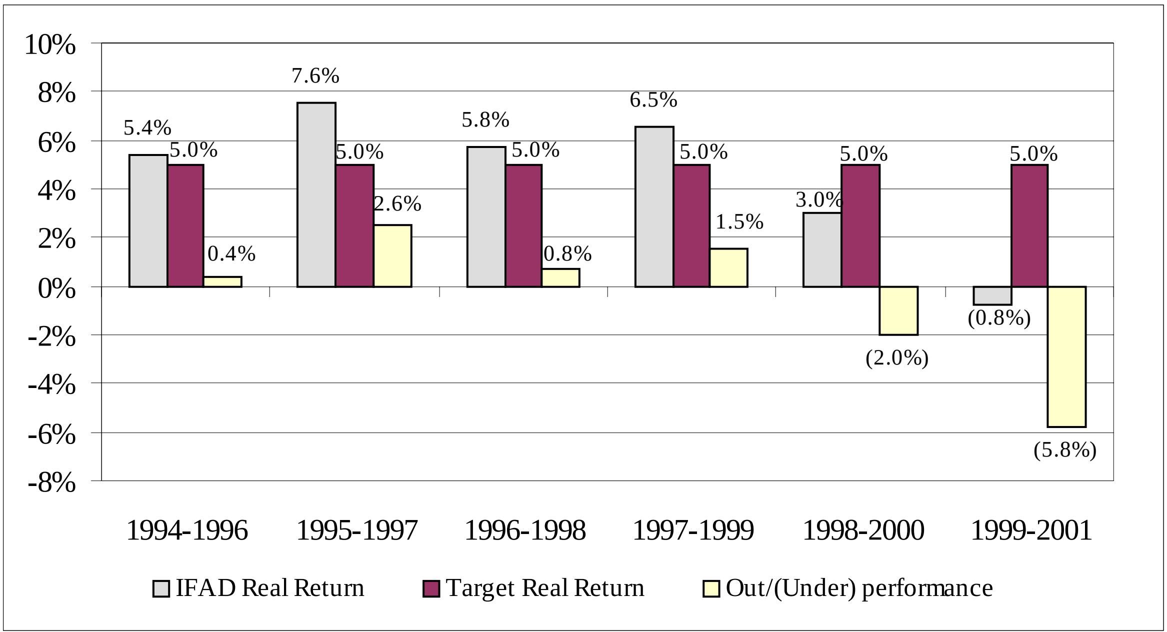
Table 9: Real Returns on IFAD's Overall Portfolio

	IFAD Nominal Rate of Return	SDR Inflation Rate	IFAD Real Rate of Return	Average Three-Year Real Rate of Return
2001	(2.3%)	2.1%	(4.4%)	(0.8%)
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%	n.a.
1994	1.3%	2.1%	(0.8%)	n.a.

n.a.: not available.

63. 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



VII. COMPOSITION OF THE PORTFOLIO

General

64. As of 31 December 2001, the Fund's investment portfolio amounted to USD 1 917 089 000 equivalent (31 December 2000 – USD 2 068 191 000), excluding amounts subject to restrictions. In 2001, prior to taking account of movements in exchange rates, the amount of the portfolio decreased by USD 63 395 000 equivalent (2000 – a decrease of USD 141 987 000 equivalent). An analysis of cash flows is provided in Annex XVI and is summarized in Table 10.

Table 10: Analysis of Cash Flows in the Overall Portfolio
(USD ’000 equivalent)

	12 Months to 31 December 2001		12 Months to 31 December 2000	
Opening balance		2 068 191		2 327 402
Net investment income	(42 982)		(47 850)	
Other inflows	368 514		274 464	
Outflows	(388 927)		(368 601)	
Decrease, prior to exchange movements		(63 395)		(141 987)
Exchange movements		(87 707)		(117 224)
Closing balance		1 917 089		2 068 191

Composition of the Portfolio by Instrument

65. IFAD’s portfolio is divided into fixed-interest and equities portfolios. Table 11 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 XVII.

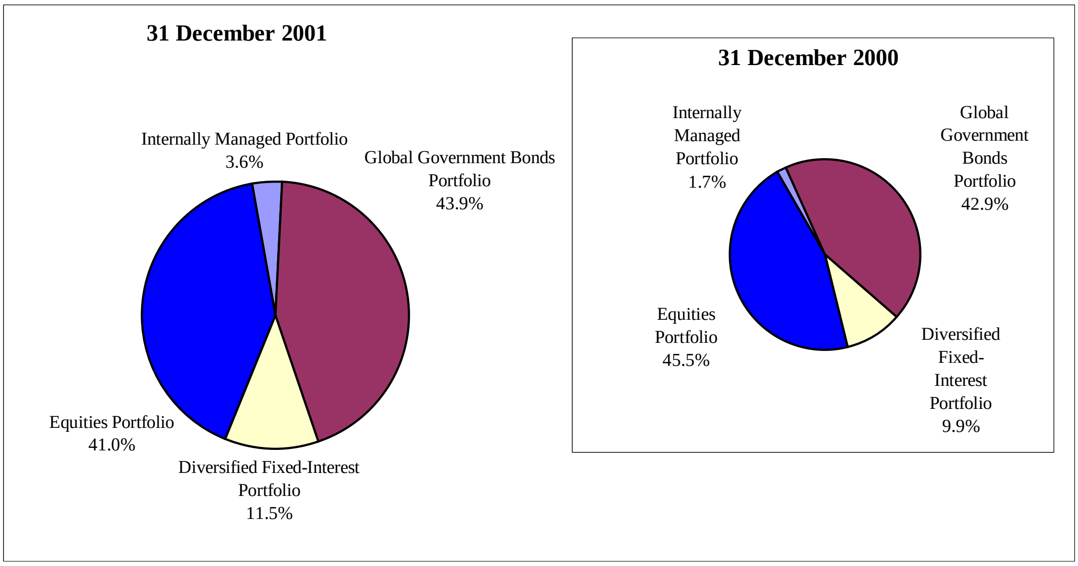
Table 11: Analysis of the Portfolio by type of Mandate and by Instrument at 31 December 2001
(USD ’000 equivalent)

Instruments	**Total Fixed-Interest Portfolio 31.12.2001**	**Total Equities Portfolio 31.12.2001**	**Overall Portfolio 31.12.2001**	**Overall Portfolio 31.12.2000**
Cash	59 549	12 153	71 702	60 149
Time deposits	116 146	15 776	131 922	203 515
Global government bonds	819 462	-	819 462	818 338
Emerging markets bonds	22 923	-	22 923	35 428
Mortgage-backed securities	78 187	-	78 187	60 597
Asset-backed securities	3 460	-	3 460	6 927
Corporate bonds	70 809	-	70 809	57 761
Equities	-	755 927	755 927	882 420
Futures	(39)	-	(39)	47
Options	530	-	530	54
Open trades	(59 141)	1 123	(58 018)	(76 727)
Accrued interest income	18 989	-	18 989	18 238
Dividends receivable	-	499	499	697
Non-convertible currencies	736	-	736	747
Total	**1 131 611**	**785 478**	**1 917 089**	**2 068 191**
Actual allocation (%)	59.0	41.0	100.0	100.0
Policy allocation (%) [1/]	55.0	45.0	100.0	100.0
Difference in allocation (%)	**4.0**	**(4.0)**	**(0.0)**	**0.0**

[1/] The policy allocation was revised in December 2001, but the implementation of the new policy allocation only began in the first quarter of 2002.

66. An analysis of the portfolio by type of mandate is found in Figure 2. There was a decrease in the equities portfolio from 45.5% of the overall portfolio as of 31 December 2000 to 41.0% as of 31 December 2001. The decrease was due to the fall in equity prices, especially in the third quarter, together with the impact of the liquidation of an equity mandate.

Figure 2: Analysis of the Portfolio by Type of Mandate at 31 December 2001



Composition of the Portfolio by Currency

67. The majority of IFAD's commitments are expressed in SDR. Consequently, the Fund's overall assets are maintained in such a way as to ensure that commitments for 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.

68. The International Monetary Fund (IMF) executive board reviews the SDR valuation basket every five years 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 comprising 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 of 1 January and 31 December 2001, are shown in Table 12.

Table 12: Units and Weights Applicable to the SDR Valuation Basket

	1 January 2001		31 December 2001	
Currency	**Units**	**Percentage Weight**	**Units**	**Percentage Weight**
USD	0.577	44.3	0.577	46.0
EUR	0.426	30.4	0.426	29.9
JPY	21.000	14.0	21.000	12.7
GBP	0.0984	11.3	0.0984	11.4
Total		**100.0**		**100.0**

70. As of 31 December 2001, assets in the form of cash, investments, promissory notes and amounts receivable from contributors under the Fourth and Fifth Replenishments amounted to USD 2 325 733 000 equivalent (31 December 2000 – USD 2 442 485 000 equivalent), as indicated in Table 13 below.

Table 13: Currency Composition of Assets at 31 December 2001
(USD '000 equivalent)

Currency Group	Cash and Investments	Promissory Notes	Amounts Receivable from Contributors	Total
USD	781 771	47 181	60 960	889 912
EUR	469 691	85 089	41 755	596 535
JPY	181 801	13 930	-	195 731
GBP	218 780	23 128	-	241 908
Other	265 046	100 089	36 512	401 647
Total	**1 917 089**	**269 417**	**139 227**	**2 325 733**

71. Holdings of assets denominated in currencies not included in the SDR valuation basket amounted to USD 401 647 000 equivalent at 31 December 2001 (31 December 2000 – USD 331 209 000 equivalent). These are allocated to currency groups, as indicated in Table 14.

Table 14: Allocation of Assets to Currency Groups at 31 December 2001
(USD '000 equivalent)

Currency Group	Currencies Included in SDR Basket	Non-SDR 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	889 912	139 634	-	96 067	2 144	1 127 757
EUR	596 535	-	163 802	-	-	760 337
JPY	195 731	-	-	-	-	195 731
GBP	241 908	-	-	-	-	241 908
Total	**1 924 086**	**139 634**	**163 802**	**96 067**	**2 144**	**2 325 733**

72. The alignment of assets by currency group against the SDR valuation basket at 31 December 2001 is shown in Table 15. The balance of the General Reserve at 31 December 2001 and the commitment for grants denominated in United States dollars on the same date amounted to USD 95 000 000 and USD 62 771 000 respectively.

Table 15: Alignment of Assets per Currency Group with the Currency Composition of the SDR Valuation Basket at 31 December 2001
(USD '000 equivalent)

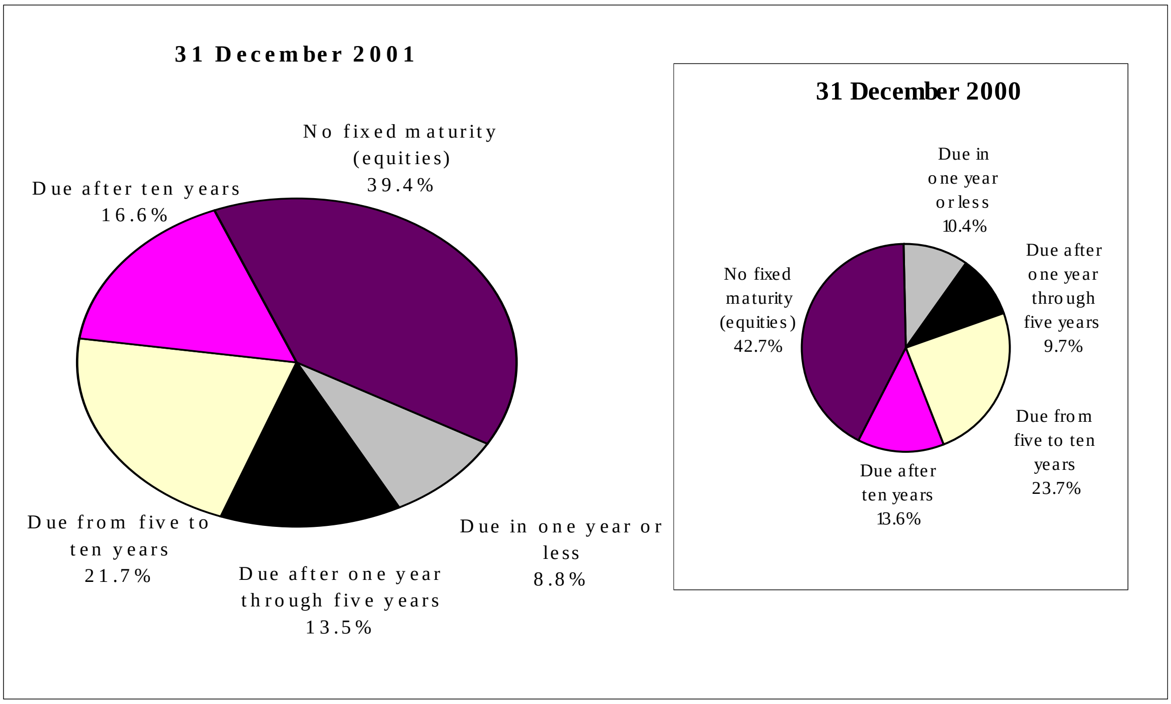
Currency Group	Amount per Currency Group	Less: Commitment Denominated in USD	Net Assets per Currency Group	Net Assets % 31.12.2001	Compare SDR Weights % 31.12.2001
USD	1 127 757	(157 771)	969 986	44.7	46.0
EUR	760 337	-	760 337	35.1	29.9
JPY	195 731	-	195 731	9.0	12.7
GBP	241 908	-	241 908	11.2	11.4
Total	**2 325 733**	**(157 771)**	**2 167 962**	**100.0**	**100.0**

73. As of 31 December 2001, there were substantial excess EUR currency group holdings and shortfalls in JPY, GBP and USD currency group holdings. The excess in EUR currency group holdings is due partly to the receipt in 2001 of instruments of contribution and promissory notes relating to the Fifth Replenishment from a large number of European Member States, and partly to an overweight currency position in euros in the global government bonds portfolio. The underweight position in Japanese yen is also partly due to an underweight position in JPY-denominated government bonds. The situation is expected to rectify itself partly with the receipt of JPY-, GBP- and USD-denominated contributions to the Fifth Replenishment.

Maturity of Investments

74. Annex XVIII provides details of the composition of the portfolio by maturity as of 31 December 2001, while Figure 3 shows the maturity of the portfolio graphically. The average life to maturity at 31 December 2001 was ten years and six months (31 December 2000 – nine years and nine months).

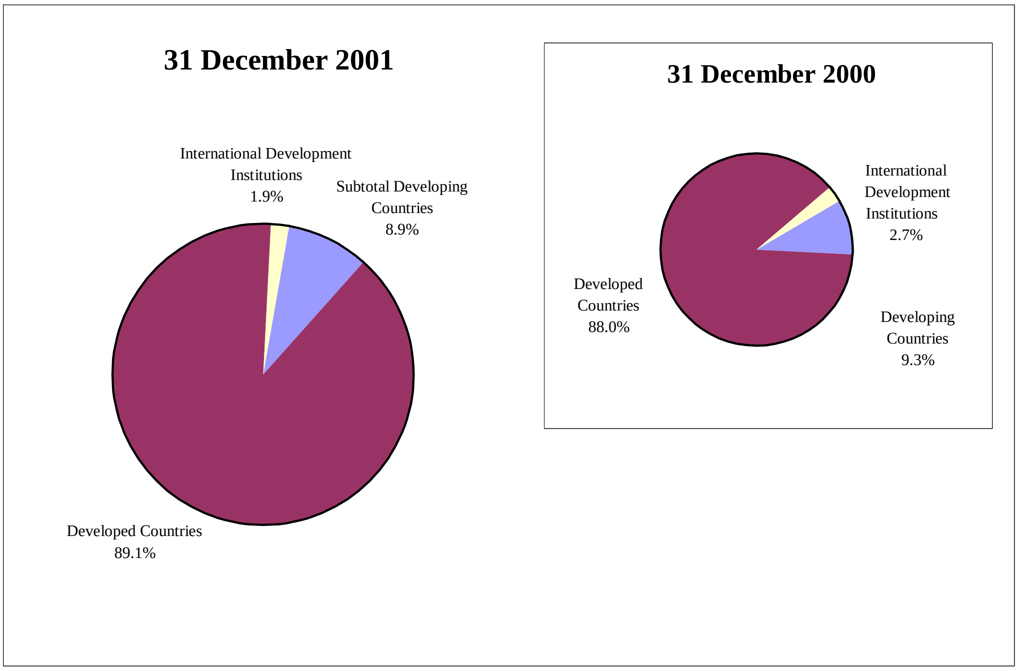
Figure 3: Maturity Structure of the Investment Portfolio



Diversification by Country

75. 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 XIX 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 2001 shows a small decrease compared to the previous year, due largely to fewer holdings of emerging markets bonds in the diversified fixed-interest portfolio.

Figure 4: Diversification of the Investment Portfolio by Country



VIII. RISK MEASUREMENT

76. 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 deviations of portfolio returns from their mean.

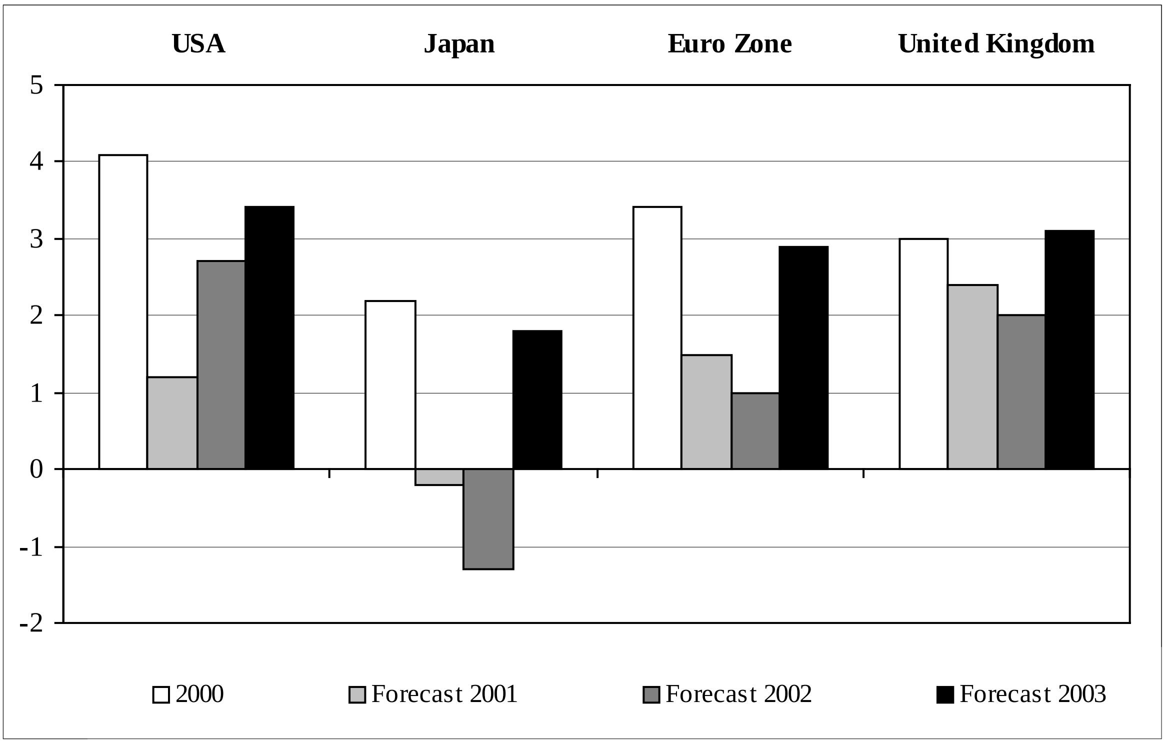
77. As of 31 December 2001, the standard deviation of IFAD's current overall policy allocation was 7.5%, based on five years of historical monthly data. This means that, with a 67% probability, the annual return will fall within the range of +/- 7.5% of the target rate of return.

78. Value-at-risk (VaR) is the measure of risk that IFAD uses to estimate the maximum amount the portfolio could lose over a three-month time horizon, with a 95% confidence level. Table 16 shows the VaR of IFAD's actual portfolio and current policy allocation, based on five years of historical monthly data. At 31 December 2001, the actual portfolio's VaR was higher than at previous quarter end, reflecting the portfolio's currently higher equity allocation due to the rebound in equity prices in fourth quarter 2001. The table also indicates that the risk associated with the actual portfolio has been consistently lower than the policy allocation.

Table 16: Value-at-Risk
(Forecast horizon three months, confidence level 95%)

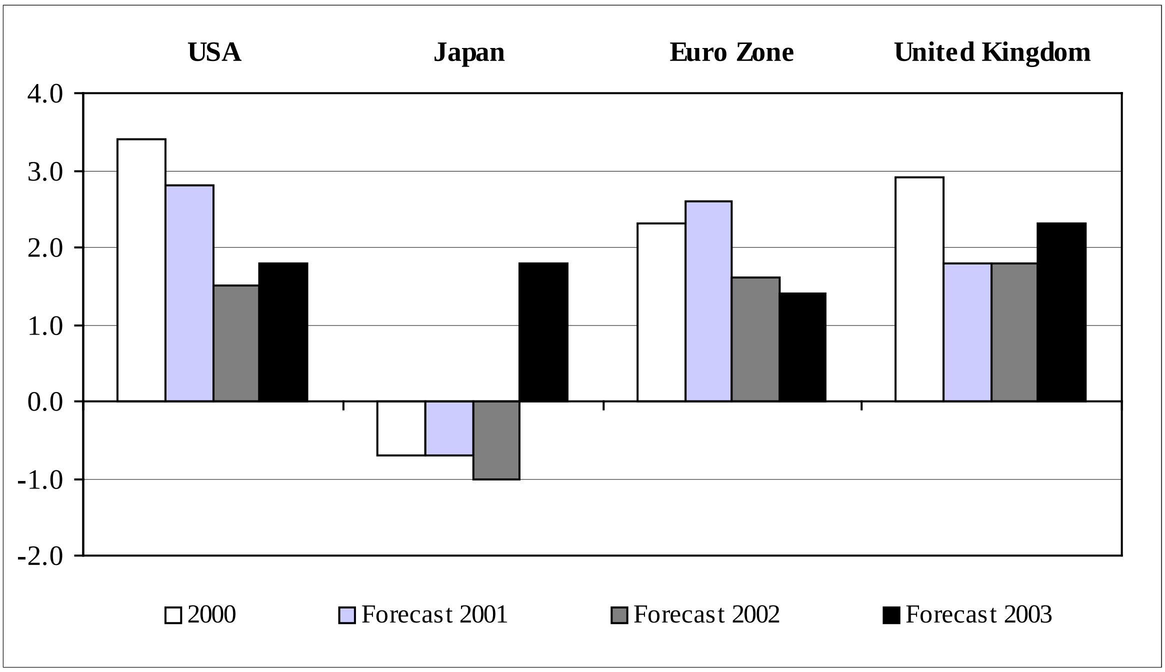
	Portfolio		Policy	
Date	**VaR %**	**Amount USD '000**	**VaR %**	**Amount USD '000**
31 December 2001	5.5	105 100	6.2	119 100
30 September 2001	4.9	90 800	6.3	116 300
30 June 2001	5.6	109 000	6.1	117 700
31 March 2001	5.3	100 700	6.0	114 200
31 December 2000	5.3	108 700	5.9	121 200

PERCENTAGE CHANGE IN REAL GDP



Source: J.P. Morgan

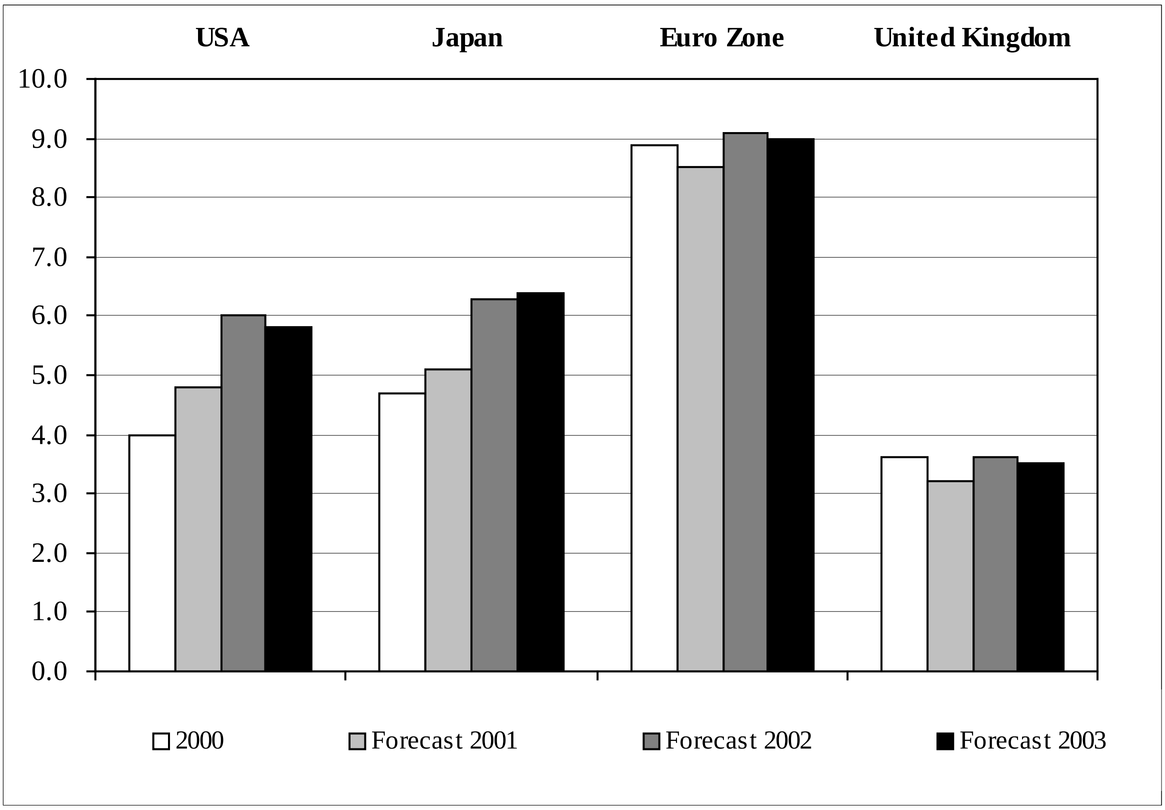
CONSUMER PRICE INDEX – ANNUALIZED RATES



Source: J.P. Morgan

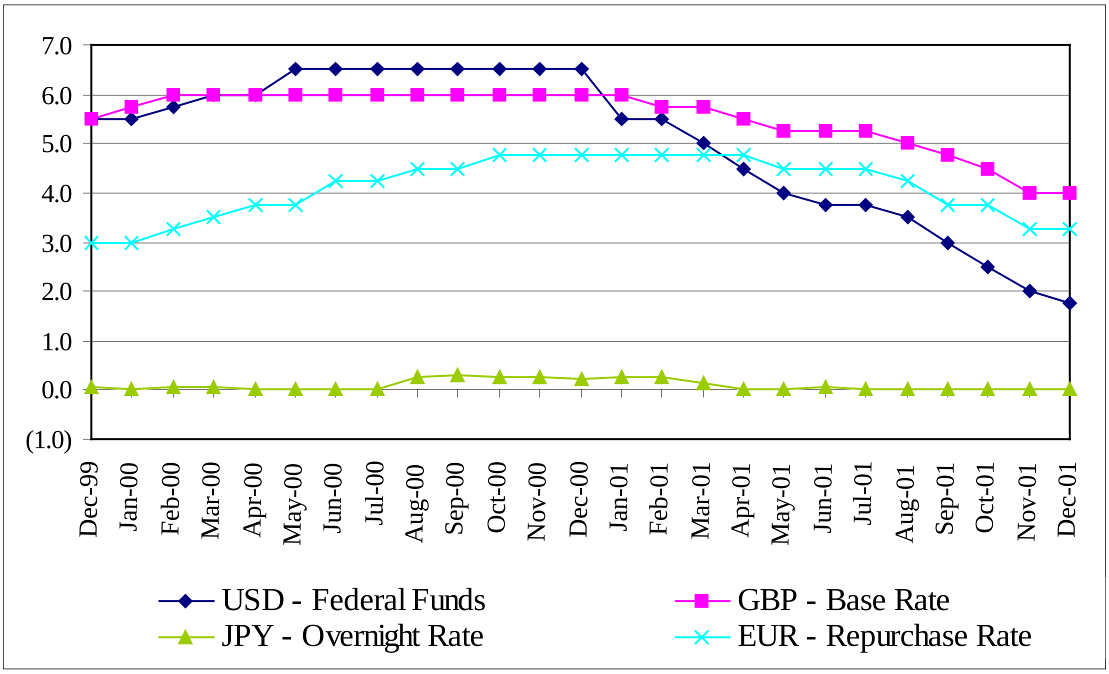
ANNEX III

UNEMPLOYMENT RATE – PERCENTAGE OF LABOUR FORCE
(Annual average)



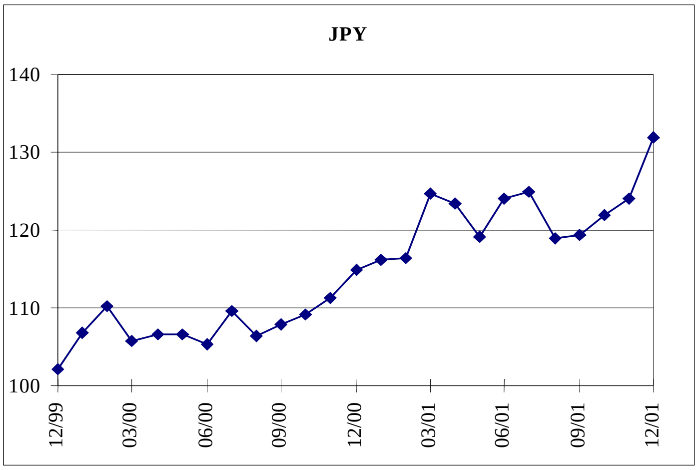
Source: J.P. Morgan

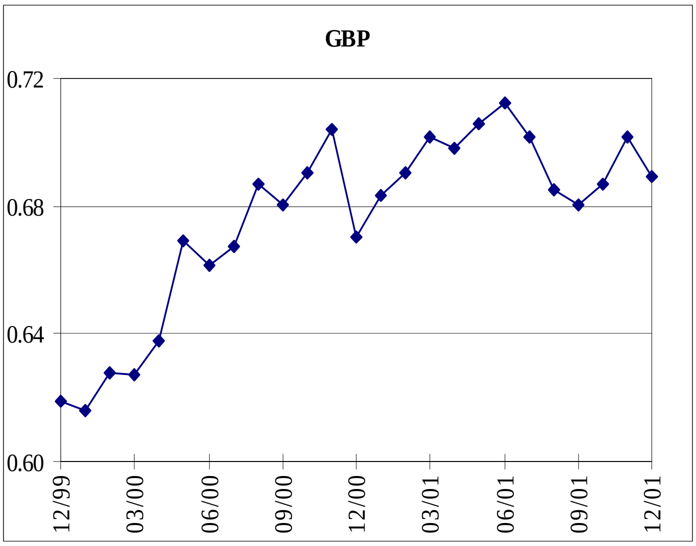
CENTRAL BANK INTEREST RATES

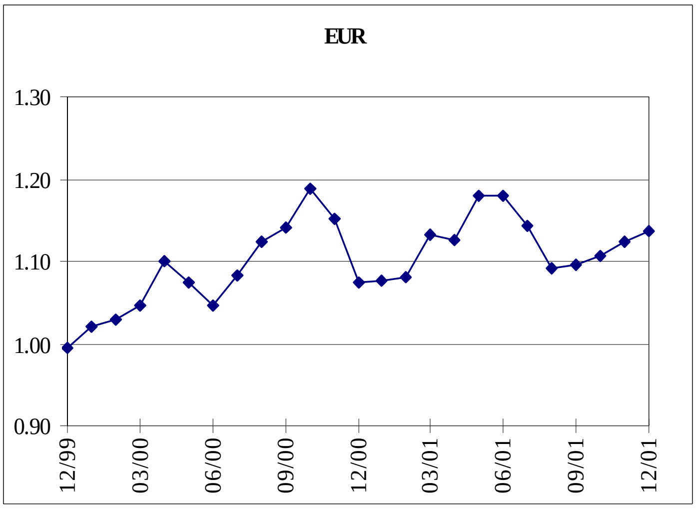


Source: Bloomberg

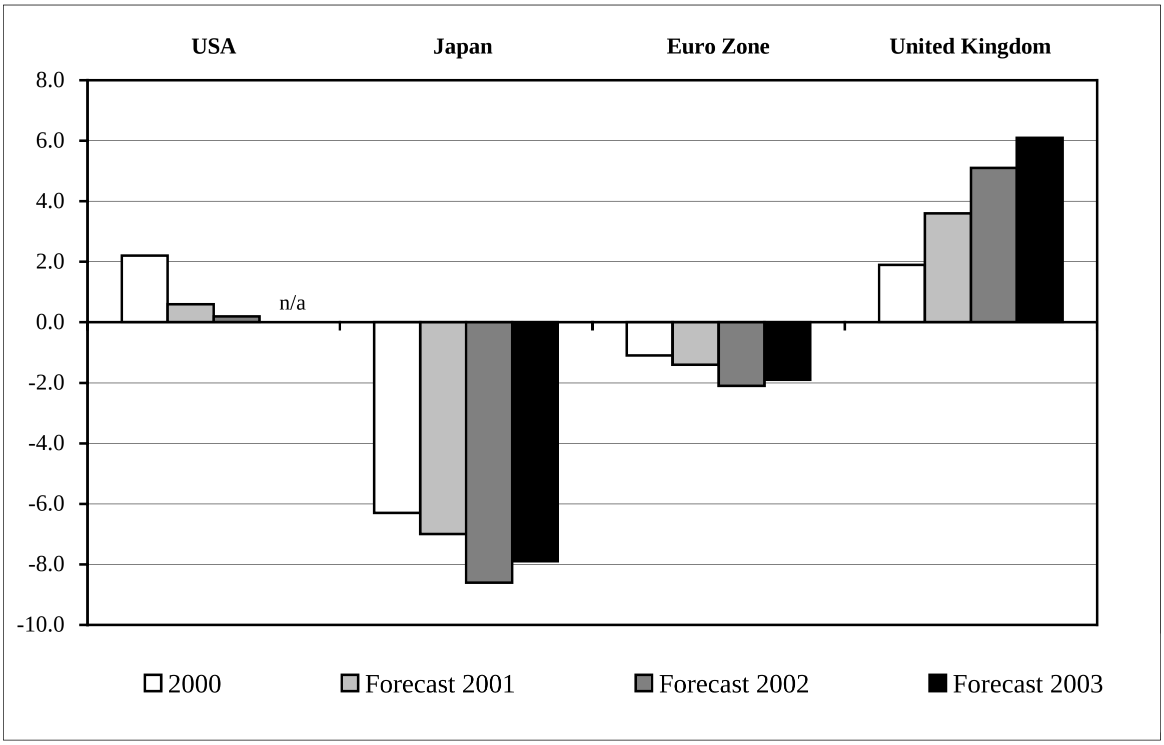
VALUE OF THE US DOLLAR AT IMF MONTH-END EXCHANGE RATES







BUDGET DEFICITS AND SURPLUSES – PERCENTAGE OF GDP

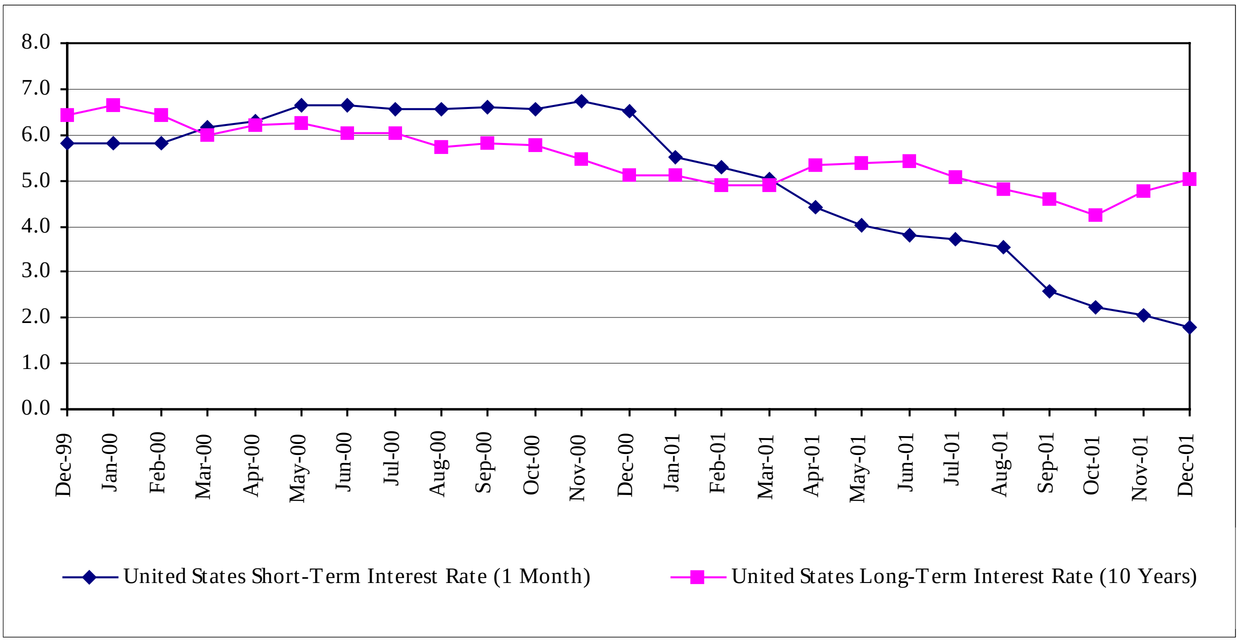


Source: J.P. Morgan

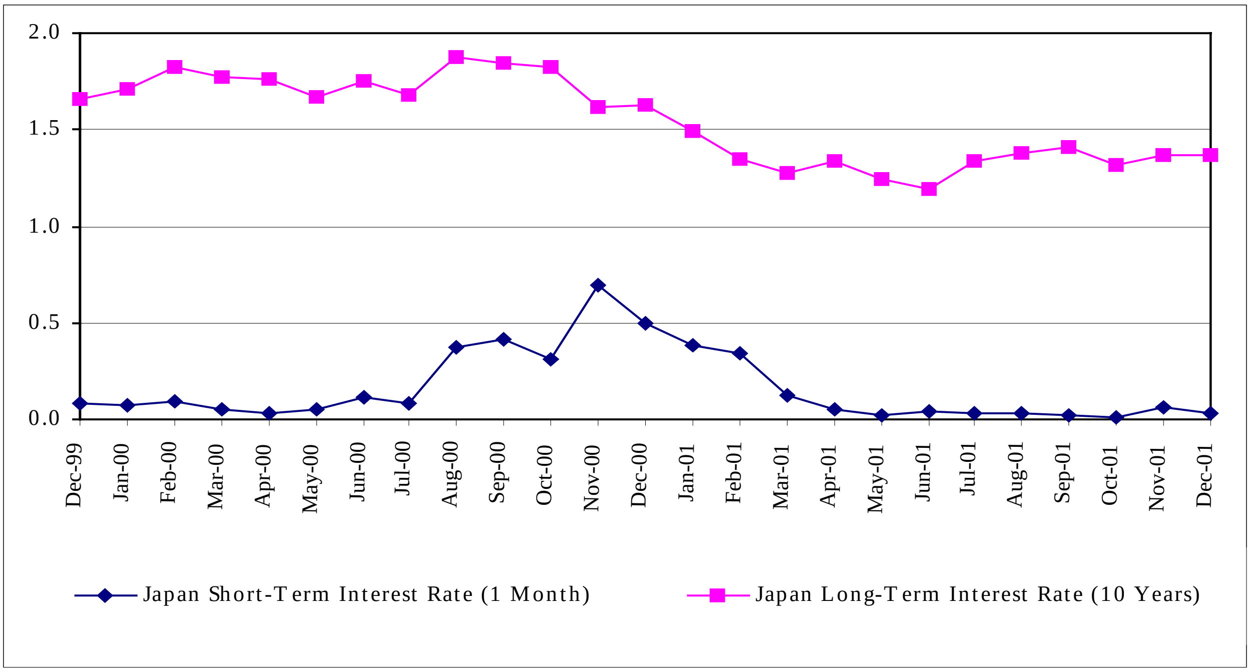
ANNEX VII

SHORT-AND LONG-TERM INTEREST RATES

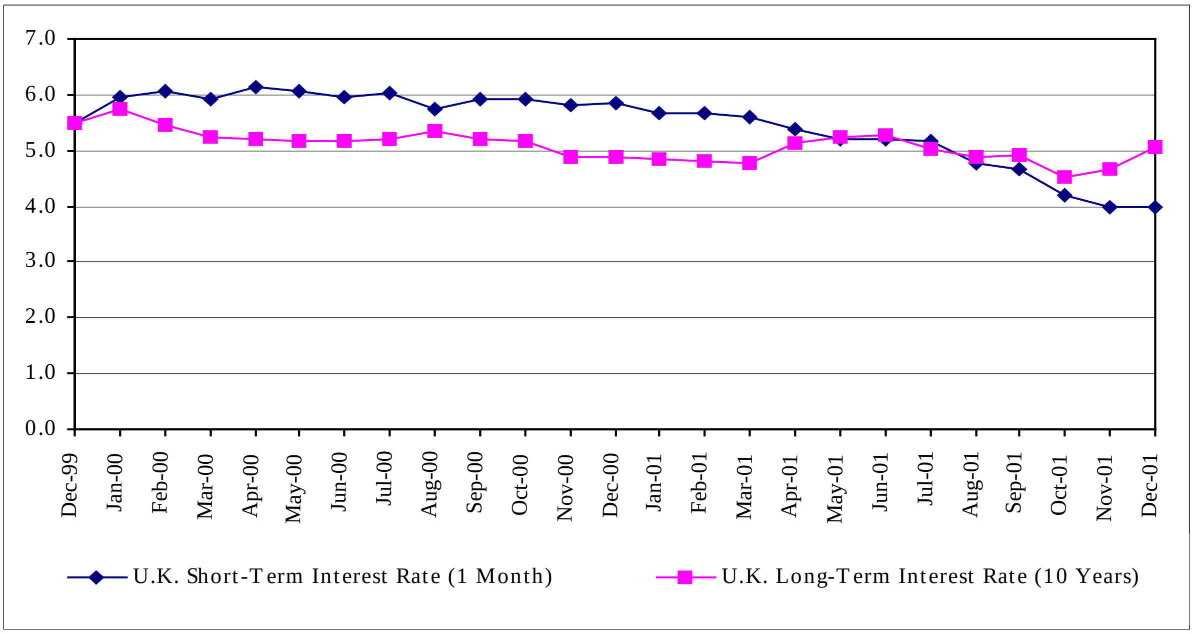
United States



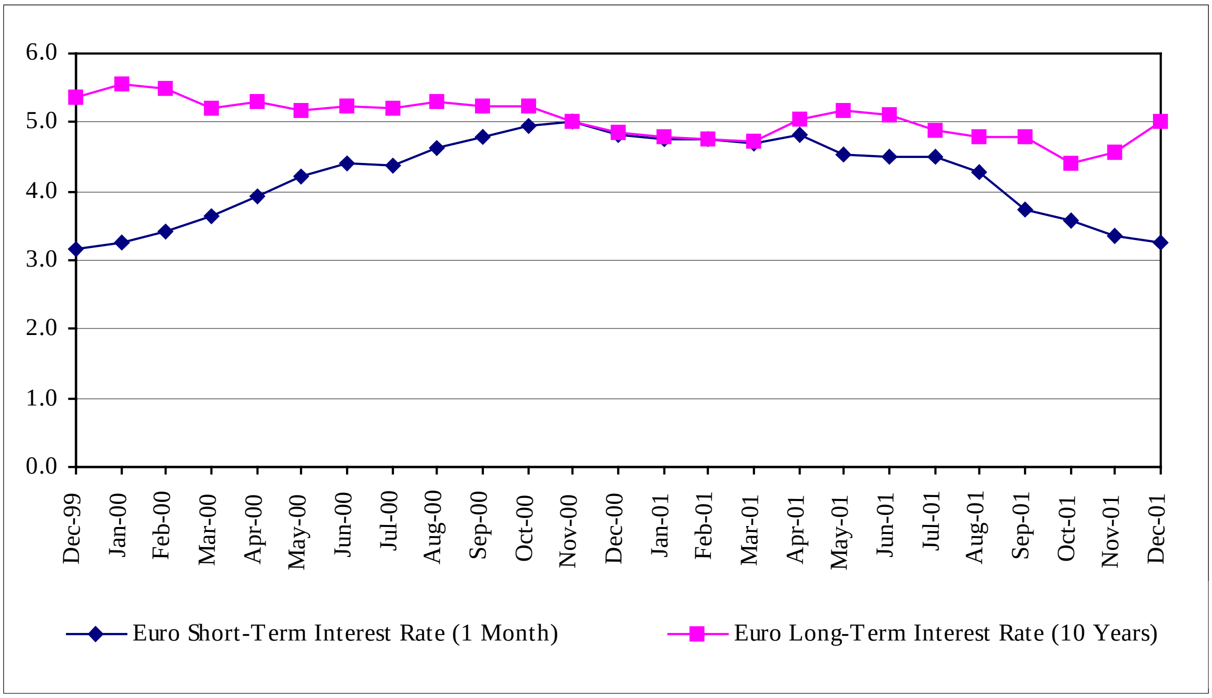
Japan



United Kingdom



Euro Zone



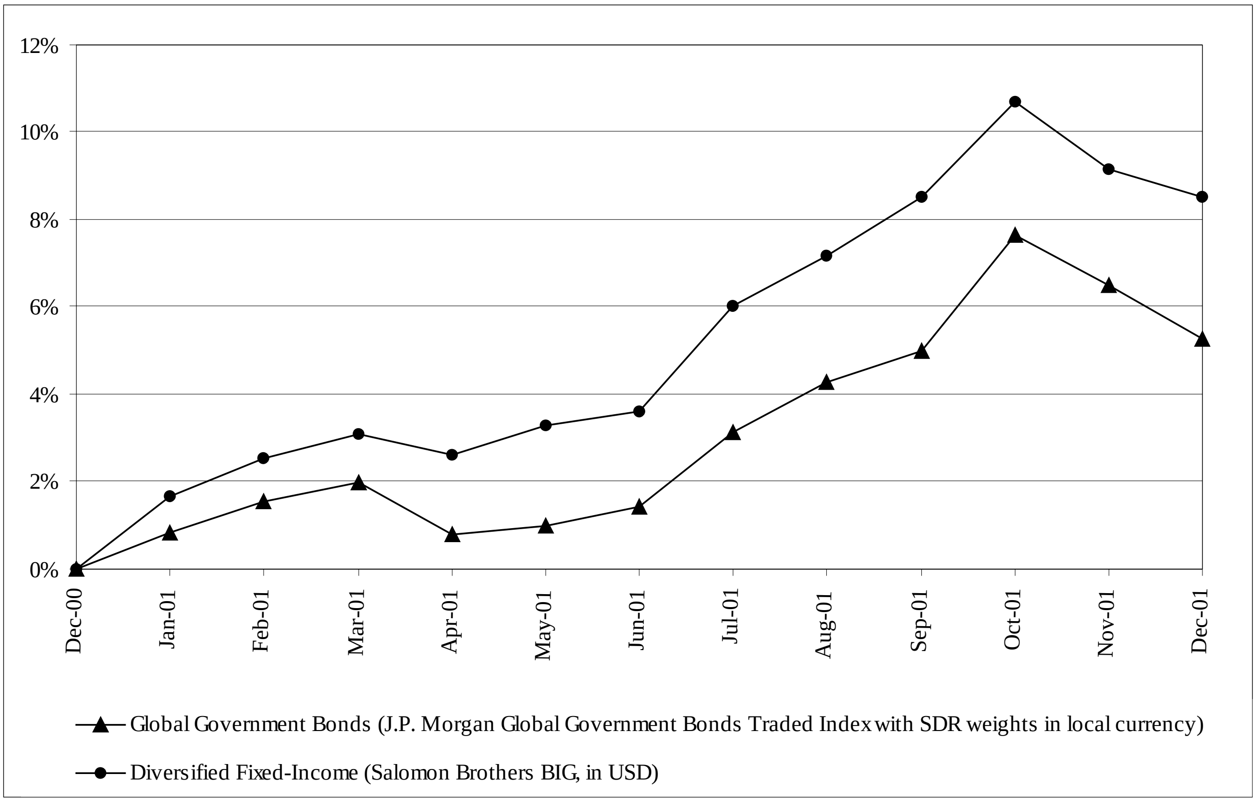
GOVERNMENT BOND RETURNS PER COUNTRY INCLUDED IN THE J.P. MORGAN GLOBAL GOVERNMENT BONDS TRADED INDEX
(Percentage in Local Currency Terms)

Country	**Fourth Quarter 2001**	**Third Quarter 2001**	**Second Quarter 2001**	**First Quarter 2001**	**2001**	**2000**
Australia	(0.96)	4.68	(2.19)	2.75	4.19	13.32
Belgium	0.67	3.56	(0.20)	2.19	6.33	7.27
Canada	1.61	5.10	(0.77)	1.43	7.48	10.43
Denmark	0.29	3.16	(0.15)	2.23	5.61	7.22
Euro zone	0.73	3.33	(0.31)	2.07	5.90	7.17
France	0.58	3.27	(0.34)	1.97	5.56	7.13
Germany	0.43	3.16	(0.46)	1.96	5.14	7.25
Italy	1.12	3.44	(0.09)	2.09	6.68	6.98
Japan	0.33	(0.58)	0.99	2.88	3.63	2.27
Netherlands	0.69	3.17	(0.42)	1.98	5.50	7.51
Spain	0.96	3.35	(0.24)	2.08	6.26	7.09
Sweden	0.72	2.66	(2.50)	1.79	2.61	9.71
United Kingdom	0.66	3.99	(2.15)	0.75	3.17	9.11
United States	(0.91)	5.66	(0.51)	2.29	6.55	13.93
	0.16	**2.96**	**(0.18)**	**2.23**	**5.23**	**8.26**

Source: J.P. Morgan

ANNEX IX

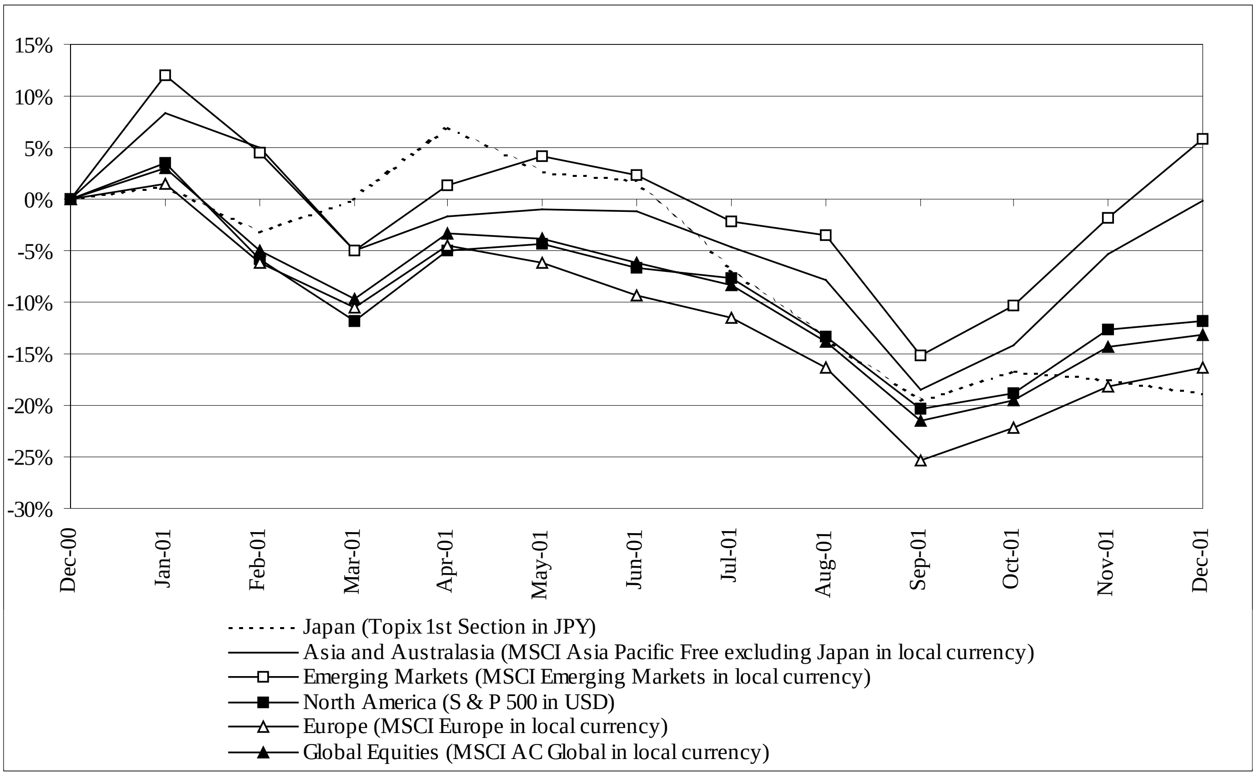
FIXED-INTEREST MARKET DEVELOPMENT IN 2001
(Monthly Data)



Source: State Street Analytics

ANNEX X

EQUITY MARKET DEVELOPMENT IN 2001
(Monthly Data)



Source: State Street Analytics
Note: MSCI: Morgan Stanley Capital International
S&P: Standard & Poor
AC: All countries

GROSS INCOME 1997-2001

Overall Portfolio

	2001	2000	1999	1998	1997	Total Cumulative
Capital gains	(106 193)	(117 460)	105 133	76 957	41 192	(371)
Interest income	59 241	68 819	90 253	112 668	128 779	459 760
Dividends	13 614	11 760	8 684	5 654	94	39 806
Total gross income	**(33 338)**	**(36 881)**	**204 070**	**195 279**	**170 065**	**499 195**

Fixed-Interest Portfolio

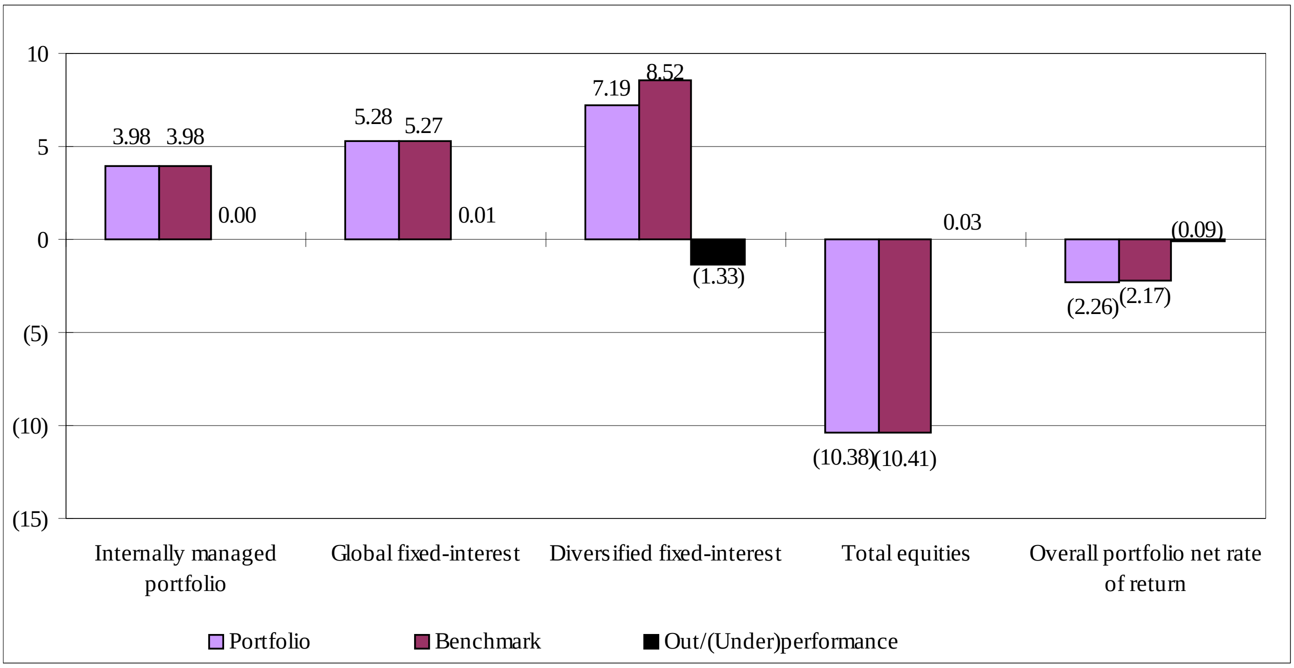
	2001	2000	1999	1998	1997	Total Cumulative
Capital gains	2 136	31 959	(121 637)	104 229	50 315	67 002
Interest income	58 356	67 228	89 333	108 773	128 779	452 469
Dividends	-	-	114	-	-	114
Total gross income	**60 492**	**99 187**	**(32 190)**	**213 002**	**179 094**	**519 585**

Equities Portfolio

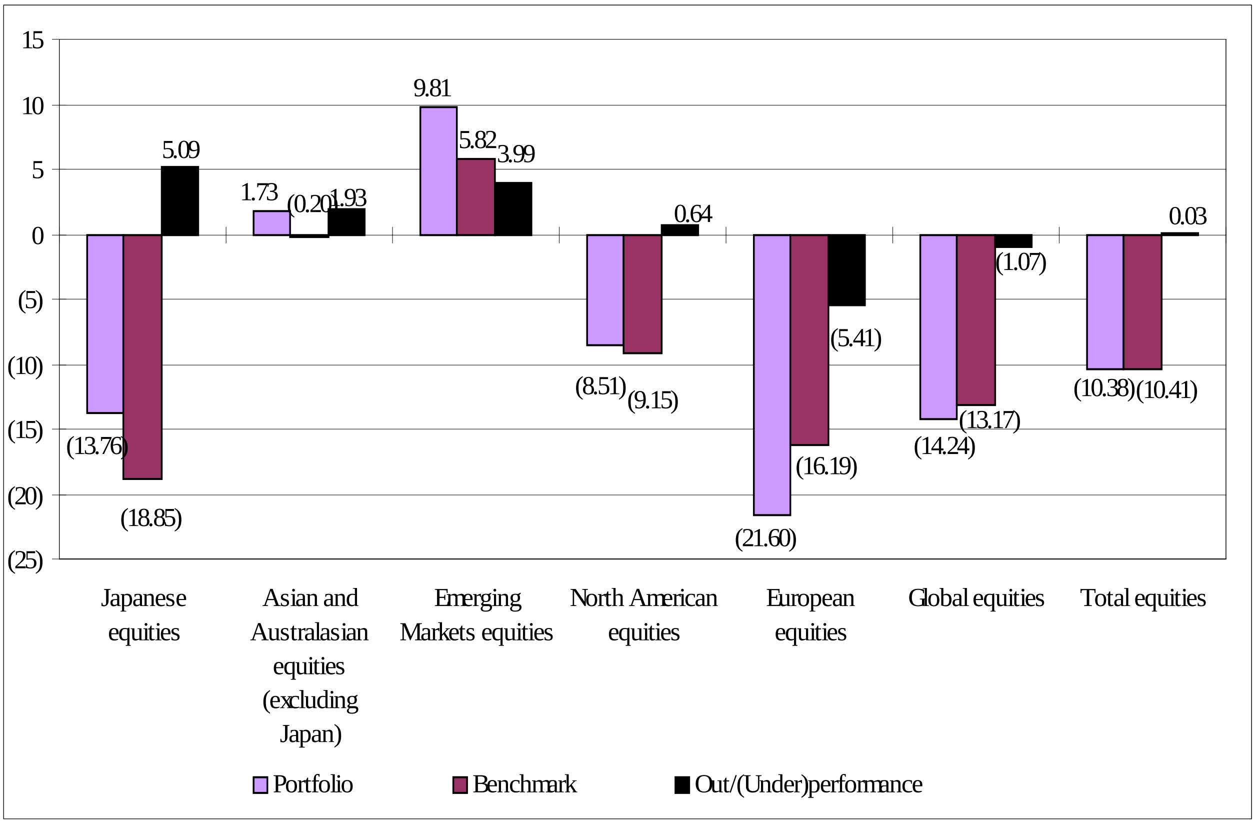
	2001	2000	1999	1998	1997	Total Cumulative
Capital gains	(108 329)	(149 419)	226 770	(27 272)	(9 123)	(67 373)
Interest income	885	1 591	920	3 895	0	7 291
Dividends	13 614	11 760	8 570	5 654	94	39 692
Total gross income	**(93 830)**	**(136 068)**	**236 260**	**(17 723)**	**(9 029)**	**(20 390)**

PERFORMANCE 2001

Overall Portfolio

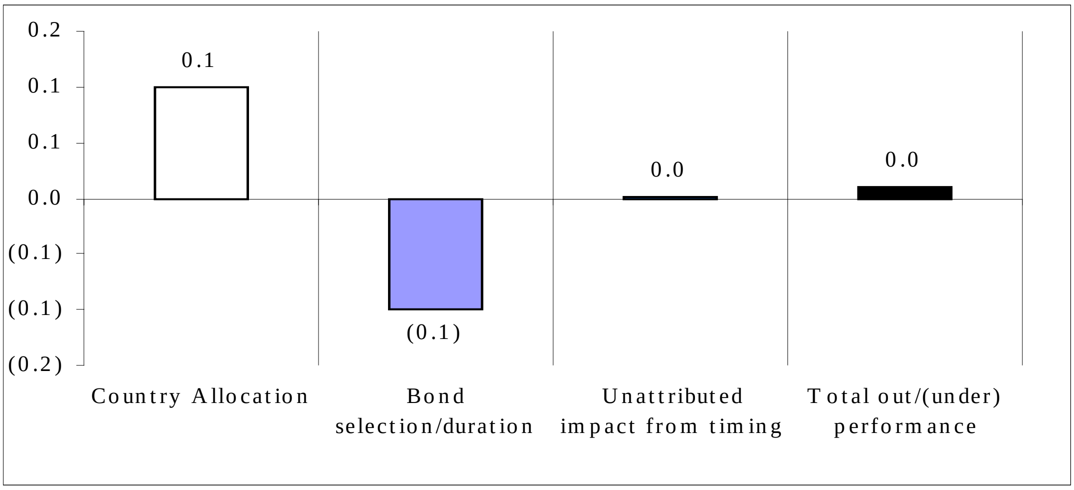


Equities Portfolio

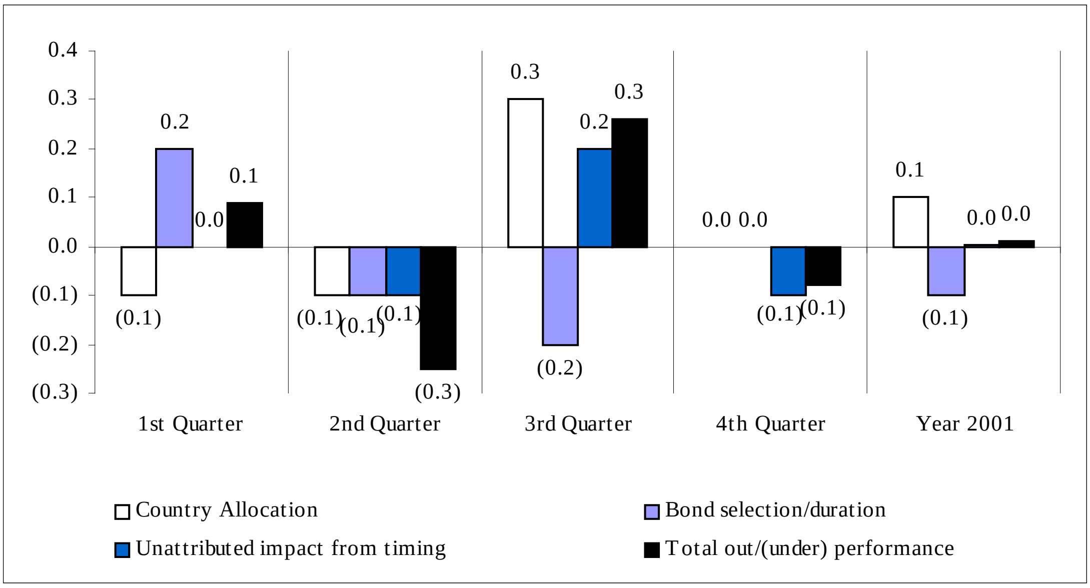


PERFORMANCE ATTRIBUTION FOR THE GLOBAL FIXED-INTEREST PORTFOLIO

Year 2001

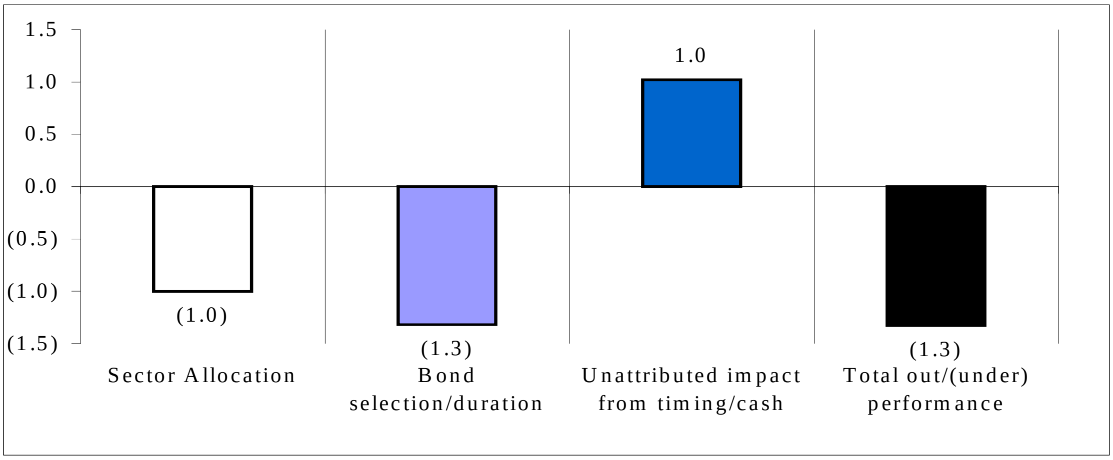


Year 2001 – Quarterly Analysis

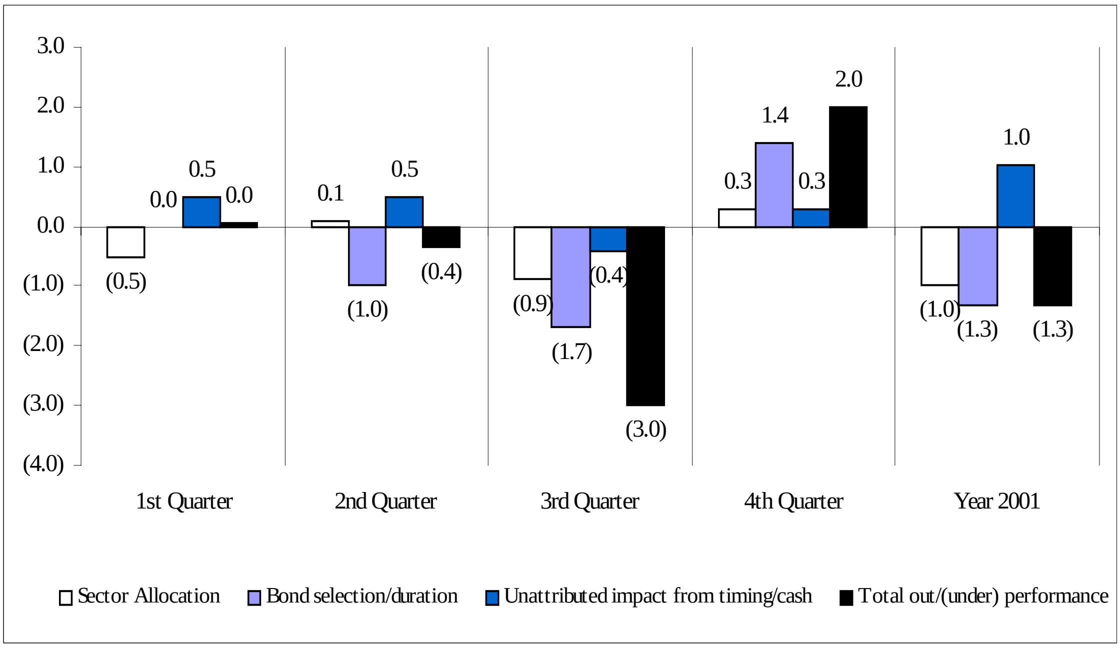


PERFORMANCE ATTRIBUTION FOR THE DIVERSIFIED FIXED-INTEREST PORTFOLIO

Year 2001

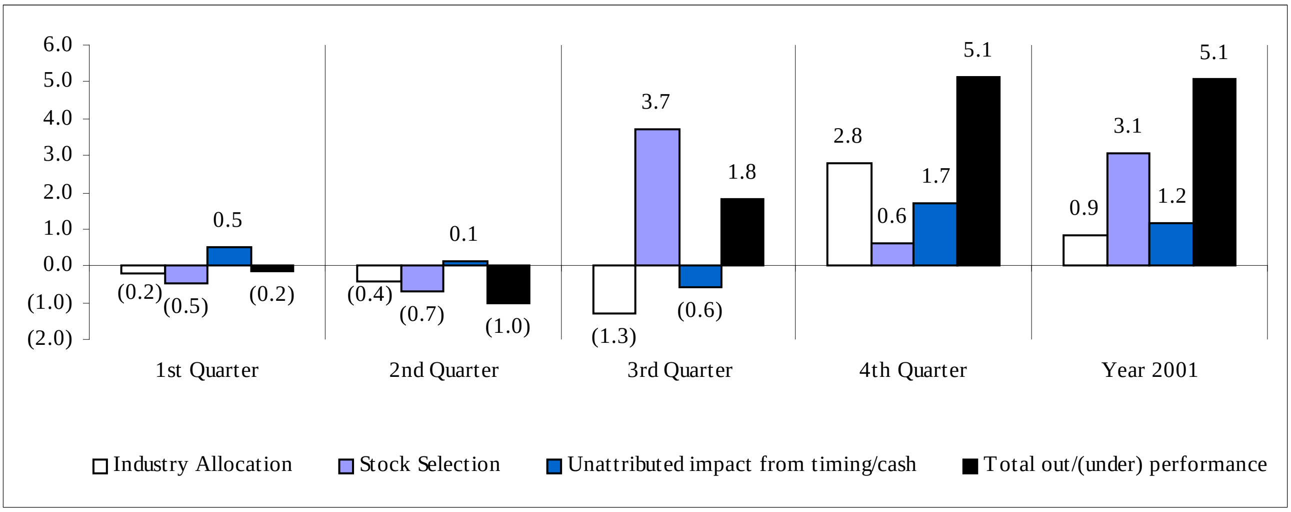


Year 2001 – Quarterly Analysis

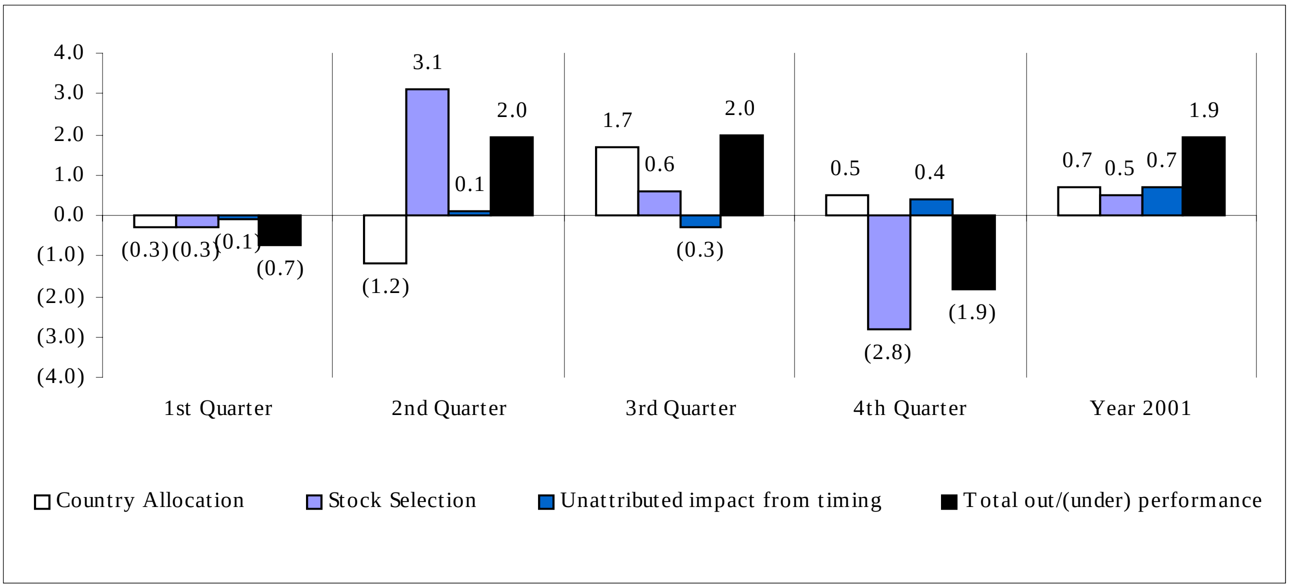


PERFORMANCE ATTRIBUTION FOR THE EQUITIES PORTFOLIO

Japanese Equities

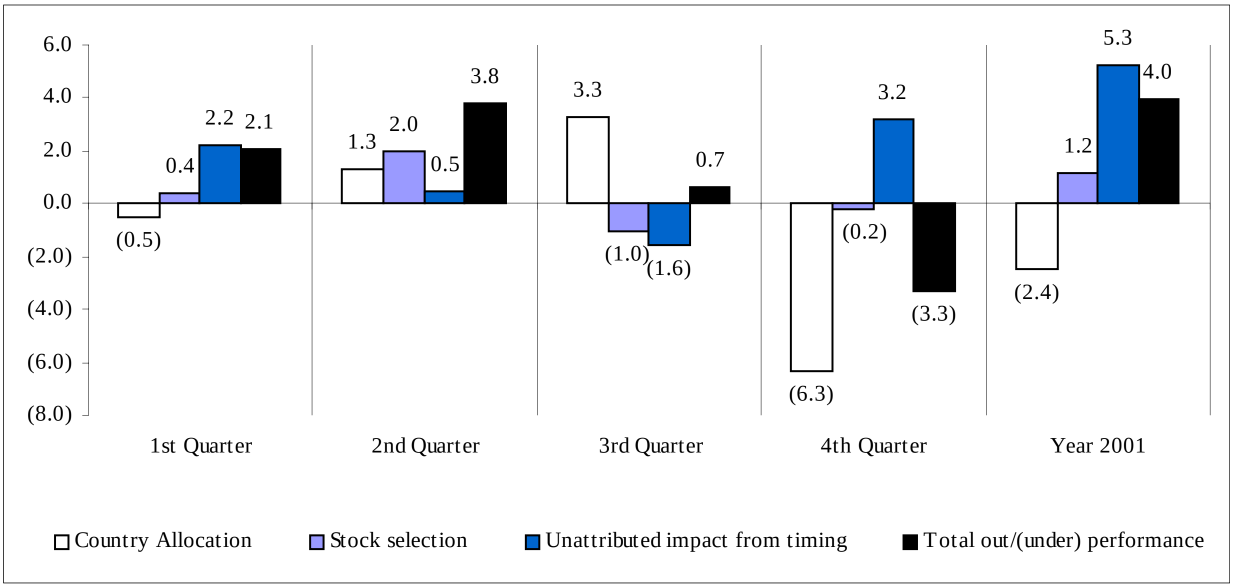


Asian and Australasian Equities

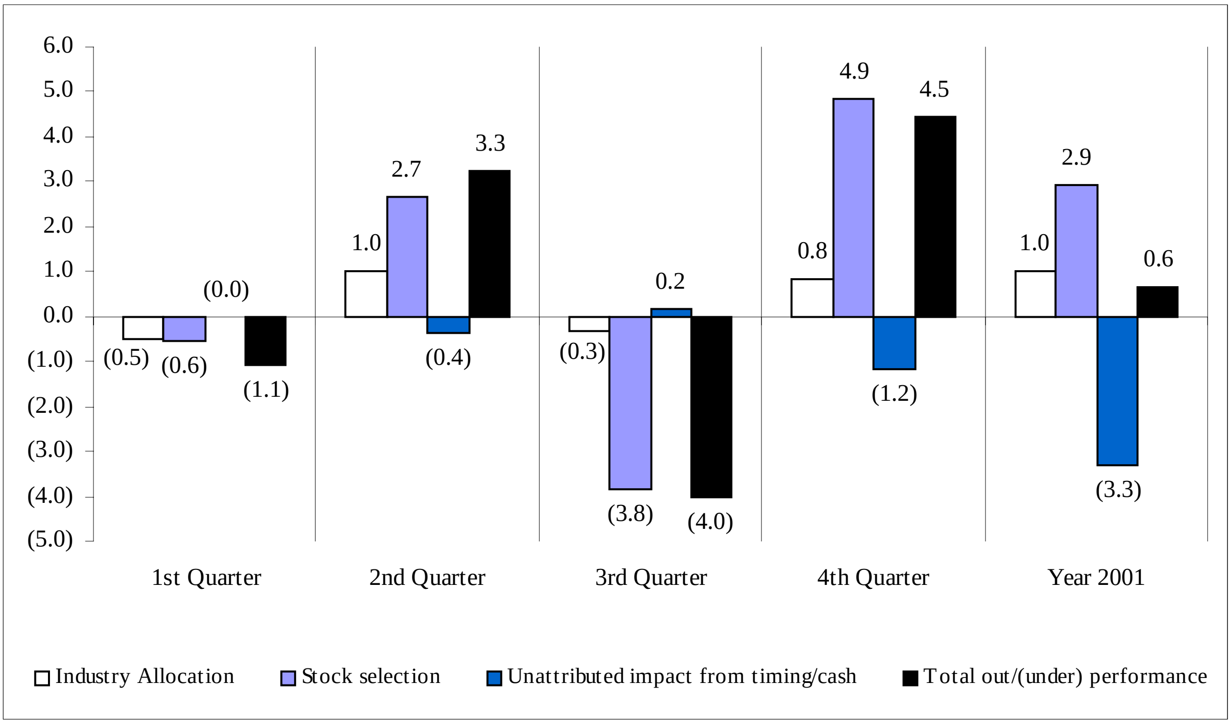


ANNEX XV

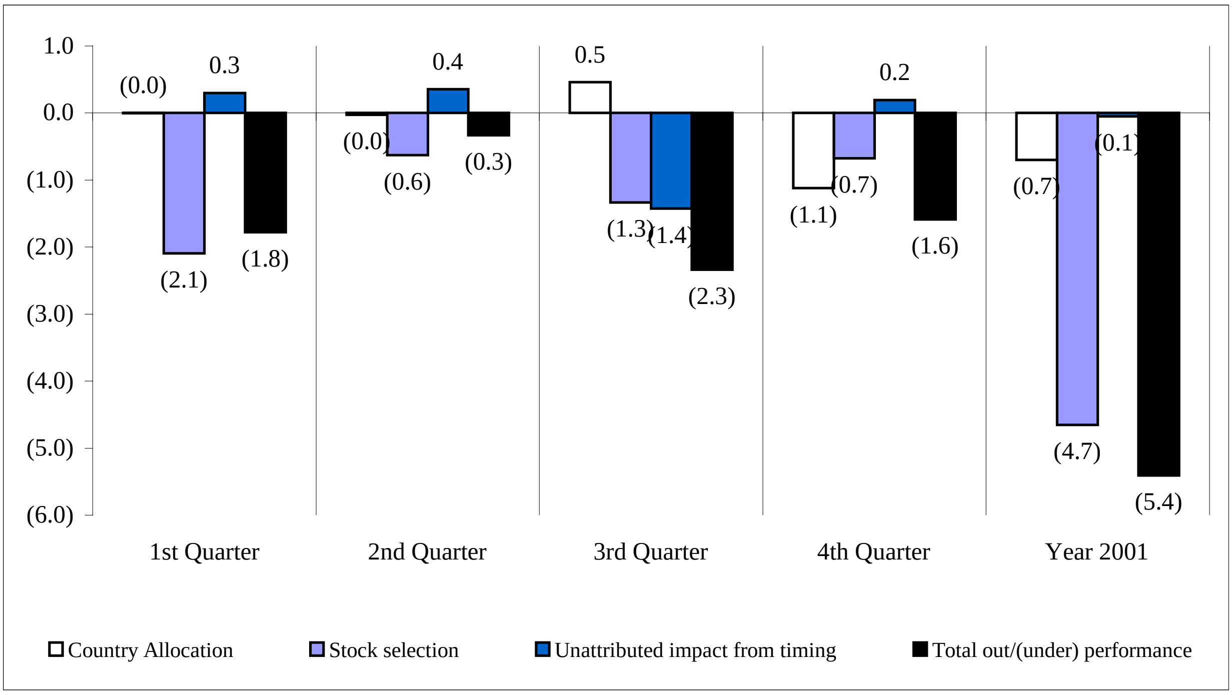
Emerging Markets Equities



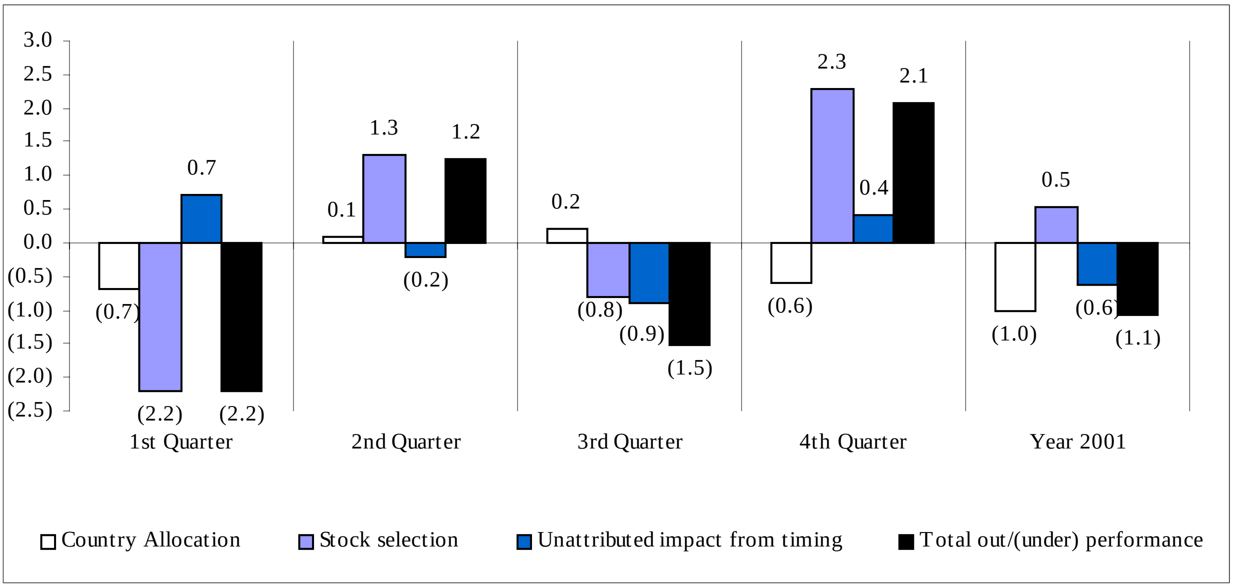
North American Equities



European Equities



Global Equities



ANNEX XVI

ANALYSIS OF CASH FLOWS
(USD '000 equivalent)

	2001	2000
Balance at 1 January	**2 068 191**	**2 327 402**
Net investment income	**(42 982)**	**(47 850)**
Other inflows:		
Loan income received	42 109	43 988
Loan principal repayments	128 036	132 858
Encashment of promissory notes	158 121	76 255
Contributions received in cash	40 248	21 363
Total inflows	**368 514**	**274 464**
Outflows:		
Loan disbursements	(299 584)	(285 144)
Grant disbursements	(27 024)	(27 316)
Payment of administrative expenses	(53 352)	(48 311)
Miscellaneous	(8 967)	(7 830)
Total outflows	**(388 927)**	**(368 601)**
Effects of movements in exchange rates	**(87 707)**	**(117 224)**
Balance at 31 December	**1 917 089**	**2 068 191**

ANNEX XVII

ANALYSIS OF THE FIXED-INTEREST PORTFOLIO BY TYPE OF MANDATE AND BY INSTRUMENT AT 31 DECEMBER 2001

(USD ’000 equivalent)

Instruments	**Internally Managed Portfolio**	**Global Government Bonds Portfolio**	**Diversified Fixed-Interest Portfolio**	**Total Fixed-Interest Portfolio 31.12.2001**
Cash	36 115	5 962	17 472	59 549
Time-deposits	33 277	33 505	49 364	116 146
Global government bonds	-	785 848	33 614	819 462
Emerging markets bonds	-	-	22 923	22 923
Mortgage-backed securities	-	-	78 187	78 187
Asset-backed securities	-	-	3 460	3 460
Corporate bonds	-	-	70 809	70 809
Equities	-	-	-	-
Futures	-	-	(39)	(39)
Options	-	-	530	530
Open trades	(402)	490	(59 229)	(59 141)
Accrued interest income	294	15 679	3 016	18 989
Dividends receivable	-	-	-	-
Non-convertible currencies	736	-	-	736
Total	**70 020**	**841 484**	**220 107**	**1 131 611**
Actual allocation (%)	3.6	43.9	11.5	59.0
Policy allocation (%) [1/]	5.0	40.0	10.0	55.0
Difference in allocation (%)	**(1.4)**	**3.9**	**1.5**	**4.0**

[1/] The policy allocation was revised in December 2001, but the implementation of the new policy allocation only began in the first quarter of 2002.

COMPOSITION OF THE INVESTMENT PORTFOLIO BY MATURITY OF INVESTMENTS

(USD ’000 equivalent)

Period	31 December 2001		31 December 2000	
	Amount	**%**	**Amount**	**%**
Due in one year or less	167 980	8.8	214 980	10.4
Due after one year through five years	259 510	13.5	199 960	9.7
Due from five to ten years	416 315	21.7	490 579	23.7
Due after ten years	317 357	16.6	280 252	13.6
No fixed maturity (equities)	755 927	39.4	882 420	42.7
Total	**1 917 089**	**100.0**	**2 068 191**	**100.0**

DIVERSIFICATION OF THE INVESTMENT PORTFOLIO BY MEMBER COUNTRIES

(USD '000 equivalent)

31 December 2001

	Cash	Time-Deposits	Fixed-Income Securities	Equities	Other Assets	Total	%
Latin America and Caribbean	-	-	13 499	13 197	-	26 696	1.4
Emerging Europe	-	-	2 841	15 313	-	18 154	0.9
North Africa, Near East	-	15 000	1 222	4 153	-	20 375	1.1
Sub-Saharan Africa	-	-	435	7 029	-	7 464	0.4
East and South Asia	2 949	372	3 425	91 553	-	98 299	5.1
Subtotal developing countries	2 949	15 372	21 422	131 245	-	170 988	8.9
Developed countries	69 117	116 922	936 378	624 682	(38 039)	1 709 060	89.1
International development institutions	-	-	37 041	-	-	37 041	1.9
Total	**72 066**	**132 294**	**994 841**	**755 927**	**(38 039)**	**1 917 089**	**100.0**

31 December 2000

	Cash	Time-Deposits	Fixed-Income Securities	Equities	Other Assets	Total	%
Developing countries	3 786	10 390	35 428	131 010	-	180 614	9.3
Developed countries	56 720	193 515	891 796	635 725	(57 691)	1 720 065	88.0
International development institutions	-	-	51 827	-	-	51 827	2.7
Total	**60 506**	**203 905**	**979 051**	**766 735**	**(57 691)**	**1 952 506**	**100.0**

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

I. INTRODUCTION

1. The following report on IFAD's investment portfolio covers the three-month period ending 31 December 2001 and includes comparative figures for the year to date and earlier years. The report comprises the following sections: asset allocation and investment policy, investment income, rate of return and performance comparison.

II. ASSET ALLOCATION AND INVESTMENT POLICY

2. Table 1 shows the movements affecting the investment portfolio's four major asset classes in the fourth quarter 2001 and compares the portfolio's actual asset allocation to the policy allocation as of 31 December 2001. There were no transfers due to allocation changes in the fourth quarter 2001.

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

	Internally Managed Portfolio	Global Government Bonds	Diversified Fixed-Interest	Equities	Overall Portfolio
Opening balance (30 September 2001)	**82 213**	**856 442**	**215 821**	**706 219**	**1 860 695**
Gross investment income	583	1 579	4 366	99 295	105 823
Income from securities lending and commission recapture	-	28	17	315	360
Fees, charges and taxes	(155)	(583)	(289)	(1 509)	(2 536)
Net investment income	**428**	**1 024**	**4 094**	**98 101**	**103 647**
Transfers due to allocation	-	-	-	-	-
Transfers due to expenses	(1 941)	554	263	1 124	-
Transfers between portfolios	**(1 941)**	**554**	**263**	**1 124**	-
Other net flows	(10 194)	-	-	-	(10 194)
Movements on exchange	(486)	(16 536)	(71)	(19 966)	(37 059)
Closing balance (31 December 2001)	**70 020**	**841 484**	**220 107**	**785 478**	**1 917 089**
Actual allocation (%)	3.6	43.9	11.5	41.0	100.0
Policy allocation (%) [1/]	5.0	40.0	10.0	45.0	100.0
Difference in allocation (%)	(1.4)	3.9	1.5	(4.0)	-

[1/] The policy allocation was revised in December 2001, but the implementation of the new policy allocation only began in the first quarter of 2002.

III. INVESTMENT INCOME

3. Table 2 shows net investment income for the fourth quarter 2001 and previous periods for the four major asset classes. Aggregate net investment income in the fourth quarter 2001 amounted to a gain of USD 103 647 000 equivalent, which, added to the loss of USD 146 629 000 equivalent in the first nine months of 2001, amounts to a loss of USD 42 982 000 equivalent in 2001.

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

Portfolio	4th Quarter 2001	3rd Quarter 2001	2nd Quarter 2001	1st Quarter 2001	Year 2001	Year 2000	Year 1999	Year 1998	Year 1997
Internally managed portfolio	428	631	578	413	2 050	3 654	3 114	4 834	18 633
Global government bonds	1 024	29 402	(6 982)	18 027	41 471	74 625	(43 977)	195 506	154 228
Diversified fixed-interest	4 094	3 507	52	6 130	13 783	17 615	3 832	6 130	-
Equities	98 101	(158 336)	44 573	(84 624)	(100 286)	(143 744)	231 500	(18 571)	(8 921)
Overall Portfolio	**103 647**	**(124 796)**	**38 221**	**(60 054)**	**(42 982)**	**(47 850)**	**194 469**	**187 899**	**163 940**

4. Fixed-interest investments continued to perform well, although income from global government bonds were modest as bond markets started to discount an economic recovery. On the other hand, diversified fixed-interest investments gained as corporate and emerging markets bonds in particular benefited from improved outlooks and investors' search for higher yields.

5. Equities investments rebounded strongly in the fourth quarter as market sentiment improved. Equities largely recovered the losses that arose in September, when stock markets tumbled after the terrorist attacks on the United States.

6. Table 3 shows the details of the net investment income earned during the fourth quarter and year 2001.

Table 3: Investment Income
(USD '000 equivalent)

	Fourth Quarter 2001			Year 2001 Overall Portfolio
	Fixed-Interest Portfolio	Equity Portfolio	Overall Portfolio	
Interest from fixed-interest investments and bank accounts	13 912	84	13 996	59 241
Dividend income from equities	-	1 981	1 981	13 614
Realized capital gains/(losses)	4 042	(23 411)	(19 369)	(74 793)
Unrealized capital gains/(losses)	(11 426)	120 641	109 215	(31 400)
Subtotal: Gross investment income/(loss)	**6 528**	**99 295**	**105 823**	**(33 338)**
Income from securities lending and commission recapture	45	315	360	841
Investment manager fees	(645)	(1 119)	(1 764)	(7 037)
Custody fees	(199)	(278)	(477)	(2 103)
Financial advisory and other investment management fees	(59)	(39)	(98)	(688)
Taxes	1	(61)	(60)	(606)
Other investment expenses	(125)	(12)	(137)	(51)
Net investment income/(loss)	**5 546**	**98 101**	**103 647**	**(42 982)**

7. As shown in Table 4, in aggregate the net income from fixed-interest investments in the fourth quarter 2001 amounted to USD 5 546 000 equivalent. All sections of the fixed-interest portfolio contributed positively to income.

Table 4: Investment Income on the Fixed-Interest Portfolio – Fourth 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	583	10 015	3 314	13 912
Dividend income from equities	-	-	-	-
Realized capital gains/(losses)	-	5 035	(993)	4 042
Unrealized capital gains/(losses)	-	(13 471)	2 045	(11 426)
Subtotal: Gross investment income	**583**	**1 579**	**4 366**	**6 528**
Income from securities lending and commission recapture	-	28	17	45
Investment manager fees	-	(437)	(208)	(645)
Custody fees	(41)	(98)	(60)	(199)
Financial advisory and other investment management fees	-	(47)	(12)	(59)
Taxes	-	-	1	1
Other investment expenses	(114)	(1)	(10)	(125)
Net investment income	**428**	**1 024**	**4 094**	**5 546**

8. In aggregate, the net income from equities investments in the fourth quarter 2001 amounted to USD 98 101 000 equivalent, as shown in Table 5. All sections of the equities portfolio contributed positively.

Table 5: Investment Income on the Equities Portfolio – Fourth 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	-	6	22	49	1	3	3	84
Dividend income from equities	33	446	401	-	534	162	405	1 981
Realized capital losses	(2 113)	(1 530)	(2 113)	-	(5 337)	(5 081)	(7 237)	(23 411)
Unrealized capital gains	8 109	17 053	15 631	-	31 376	20 325	28 147	120 641
Subtotal: Gross investment income	**6 029**	**15 975**	**13 941**	**49**	**26 574**	**15 409**	**21 318**	**99 295**
Income from securities lending and commission recapture	21	36	37	-	80	41	100	315
Investment manager fees	(119)	(138)	(226)	-	(245)	(167)	(224)	(1 119)
Custody fees	(11)	(41)	(54)	(18)	(57)	(40)	(57)	(278)
Financial advisory and other investment management fees	(5)	(4)	(4)	(1)	(9)	(7)	(9)	(39)
Taxes	-	(12)	(25)	-	1	(58)	33	(61)
Other investment expenses	-	(7)	-	-	-	(3)	(2)	(12)
Net investment income	**5 915**	**15 809**	**13 669**	**30**	**26 344**	**15 175**	**21 159**	**98 101**

IV. RATE OF RETURN AND PERFORMANCE COMPARISON

9. There was an overall return of 5.59% in the fourth quarter 2001, net of investment expenses and movements on exchange.

10. The performance of the various mandates of the investment portfolio is measured against preassigned independent benchmarks, indicating the return that would be expected through passive management of defined sectors of the market. The principal indexes used are the J.P. Morgan Global Government Bonds Traded Index and the Morgan Stanley Capitalization Index for global equities.

11. Table 6 compares the return of each major section of the portfolio with the appropriate benchmark rate of return. The overall portfolio showed an outperformance of 74 basis points in the fourth quarter 2001.

Table 6: Performance Compared with Benchmarks – Fourth Quarter and Year 2001
(USD ’000 equivalent)

	Fourth Quarter 2001			Year 2001		
	Rate of Return %		Out/(Under)	Rate of Return %		Out/(Under)
Portfolio	**Portfolio**	**Benchmark**	**Performance**	**Portfolio**	**Benchmark**	**Performance**
Internally managed portfolio	0.71	1.92	(1.21)	3.98	3.98	0.00
Global government bonds	0.18	0.26	(0.08)	5.28	5.27	0.01
Diversified fixed-interest	2.02	0.02	2.00	7.19	8.52	(1.33)
Total fixed-interest	**0.57**	**0.22**	**0.35**	**5.62**	**5.77**	**(0.15)**
Japanese equities	6.04	0.90	5.14	(13.76)	(18.85)	5.09
Asian and Australasian equities (excluding Japanese)	20.52	22.37	(1.85)	1.73	(0.20)	1.93
Emerging markets equities	21.43	24.76	(3.33)	9.81	5.82	3.99
North American equities	16.91	12.46	4.45	(8.51)	(9.15)	0.64
European equities	11.86	13.45	(1.59)	(21.60)	(16.19)	(5.41)
Global equities	12.80	10.71	2.09	(14.24)	(13.17)	(1.07)
Total equities	**14.06**	**12.60**	**1.46**	**(10.38)**	**(10.41)**	**0.03**
Overall portfolio gross rate of return	**5.70**	**4.96**	**0.74**	**(1.77)**	**(1.68)**	**(0.09)**
Less expenses	**(0.11)**	**(0.11)**	**0.00**	**(0.49)**	**(0.49)**	**0.00**
Overall portfolio net rate of return	**5.59**	**4.85**	**0.74**	**(2.26)**	**(2.17)**	**(0.09)**

12. The total fixed-interest portfolio returned 0.57% in the fourth quarter 2001, outperforming its benchmark by 35 basis points. The outperformance was due to the diversified fixed-interest portion of the portfolio, which outperformed by 200 basis points, largely due to managers’ bond selection, duration and credit quality in corporate bonds and emerging markets bonds, which both rebounded strongly in the fourth quarter 2001. The global government bonds portfolio slightly underperformed its benchmark.

13. The total equities portfolio returned 14.06% in the fourth quarter 2001, in particular due to the high returns in emerging markets and Asian and Australasian equities. In aggregate, the equities portfolio outperformed its benchmark by 146 basis points, due to strong outperformance by Japanese, North American and global equities. Japanese equities outperformed especially due to its industry-sector allocation, which overweighted the rebounding manufacturing sector and underweighted the poorly performing banking sector. Also the North American equities portfolio outperformed strongly, in particular due to its stock selection in two rebounding sectors: information technology and consumer discretionary stocks. The global equities mandate outperformed especially due to stock selection in the United States. The overall equities outperformance was mainly muted by emerging markets equities, which suffered from holdings of cash during the rally and low exposure to the strongly rebounding Korean market. There was also underperformance by Asian and Australasian equities, mainly due to stock selection in the Hong Kong market, and by European equities, due to both allocation and stock selection in several countries.

ANNEX XXI

CUMULATIVE RETURN ON EQUITIES PORTFOLIO AND BENCHMARK IN 2001