



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

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**REPORT ON IFAD'S INVESTMENT PORTFOLIO FOR THE
FIRST QUARTER OF 2002**

I. INTRODUCTION

1. The following report on IFAD's investment portfolio covers the three-month period ending 31 March 2002 and includes comparative figures for earlier years.
2. The report comprises sections on asset allocation and investment policy, investment income, rate of return and performance comparison, currency composition and risk measurement.

II. ASSET ALLOCATION AND INVESTMENT POLICY

3. The implementation of IFAD's new investment policy began in the first quarter of 2002, and a separate Executive Board report (document EB 2002/75/R.34) has been prepared on the implementation of the new policy.
4. A rally in equity markets occurred at the beginning of March 2002 and provided an opportunity to liquidate five equity portfolios, which had originally been funded in the amount of USD 384.5 million, without incurring any losses. Details of the equity sales are provided in Annex I.
5. Of the sales proceeds of USD 425 million equivalent, some USD 356 million equivalent denominated in currencies that form part of the SDR valuation basket was transferred to IFAD's accounts with central banks, while a balance of USD 69 million equivalent denominated in various currencies was left temporarily in cash and time deposits in the equities section of the portfolio, pending currency conversion and reinvestment in fixed-interest instruments, as indicated in Annex II.

6. Taking into account these holdings of USD 69 million, the net amount of IFAD's equities subportfolio at 31 March 2002 was USD 370 million or 19.4% of the overall portfolio, while the actual allocation of 23.1% shown in Table 1 represents the gross amount.

Table 1: Summary of Movements in Cash and Investments – First Quarter 2002
(USD '000 equivalent)

	Internally Managed Portfolio	Global Government Bonds	Diversified Fixed-Interest	Equities	Overall Portfolio
Opening balance (31 December 2001)	70 020	841 484	220 107	785 478	1 917 089
Gross investment income (loss)	448	(3 887)	1 258	14 416	12 235
Income from securities lending and commission recapture	52	17	16	81	166
Fees, charges and taxes	(32)	(623)	(314)	(1 468)	(2 437)
Net investment income (loss)	468	(4 493)	960	13 029	9 964
Transfers due to allocation	357 912	-	-	(357 912)	-
Transfers due to expenses	(2 178)	587	267	1 324	-
Transfers between portfolios	355 734	587	267	(356 588)	-
Other net flows	(9 351)	-	-	-	(9 351)
Movements on exchange	(619)	(10 912)	(52)	(2 328)	(13 911)
Closing balance (31 March 2002)	416 252	826 666	221 282	439 591	1 903 791
Actual allocation (%)	21.9	43.4	11.6	23.1	100.0
Policy allocation (%) ¹	5.0	44.0	23.0	10.0	82.0
Difference in allocation (%)	16.9	(0.6)	(11.4)	13.1	18.0

¹ The policy allocation has an allocation of 18% to global inflation-indexed bonds. The asset class was unfunded as of 31 March 2002.

7. As at 31 March 2002, the credit floor of AA- had not yet been implemented pending negotiations with the diversified fixed-income managers. Of the amount of USD 221.3 million in the diversified fixed-income portfolio, some USD 26.7 million or 12% of the portfolio consisted of emerging markets bonds.

8. It is foreseen that the implementation of the credit floor of AA- in the new investment policy will preclude the possibility of investing in emerging markets bonds, with the exception of those that carry special guarantees and attract a credit rating similar to that of the guarantor body. Provision will be made in the guidelines to invest in such instruments.

III. INVESTMENT INCOME

9. Table 2 shows investment income for the four major asset classes. Aggregate net investment income in the first quarter of 2002 amounted to a gain of USD 9 964 000 equivalent.

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

Portfolio	1st Quarter 2002	2001	2000	1999	1998	1997
Internally managed	468	2 050	3 654	3 114	4 834	18 633
Global government bonds	(4 493)	41 471	74 625	(43 977)	195 506	154 228
Diversified fixed-interest	960	13 783	17 615	3 832	6 130	-
Total equities	13 029	(100 286)	(143 744)	231 500	(18 571)	(8 921)
Overall portfolio	9 964	(42 982)	(47 850)	194 469	187 899	163 940

10. Fixed-interest investments contributed negatively as signs of economic recovery continued to accumulate and investors discounted the risk of central bank tightening later in the year.

11. Equity investments continued the upward trend commenced in the fourth quarter of 2001, but at a more subdued pace as stocks of companies with complex accounting structures and high debt levels came under pressure.

12. Table 3 shows the details of the net investment income earned during the first quarter of 2002.

Table 3: Investment Income on the Overall Portfolio – First Quarter 2002
(USD '000 equivalent)

	Fixed-Interest Portfolio	Equity Portfolio	Overall Portfolio
Interest from fixed-interest investments and bank accounts	13 303	126	13 429
Dividend income from equities	-	2 538	2 538
Capital gains(losses)	(15 484)	11 752	(3 732)
Subtotal: Gross investment income(loss)	(2 181)	14 416	12 235
Income from securities lending and commission recapture	85	81	166
Investment manager fees	(606)	(1 058)	(1 664)
Custody fees	(195)	(310)	(505)
Financial advisory and other investment management fees	(118)	(88)	(206)
Taxes	(18)	(18)	(36)
Other investment expenses	(32)	6	(26)
Net investment income(loss)	(3 065)	13 029	9 964

13. As shown in Table 4, in aggregate, the net loss from fixed-interest investments in the first quarter of 2002 amounted to a loss of USD 3 065 000 equivalent. The loss was due to the global fixed-interest subportfolio as bond yields rose.

Table 4: Investment Income on the Fixed-Interest Portfolio – First Quarter 2002
(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	448	9 797	3 058	13 303
Dividend income from equities	-	-	-	-
Capital gains(losses)	-	(13 684)	(1 800)	(15 484)
Subtotal: Gross investment income(loss)	448	(3 887)	1 258	(2 181)
Income from securities lending and commission recapture	52	17	16	85
Investment manager fees	-	(410)	(196)	(606)
Custody fees	(32)	(100)	(63)	(195)
Financial advisory and other investment management fees	-	(94)	(24)	(118)
Taxes	-	(18)	-	(18)
Other investment expenses	-	(1)	(31)	(32)
Net investment income(loss)	468	(4 493)	960	(3 065)

14. In aggregate, the net income from equities investments in the first quarter of 2002 amounted to USD 13 029 000 equivalent, which in Table 5 is shown by subportfolios. With the exception of the North American equities, all sections contributed positively in terms of gross income.

Table 5: Investment Income on the Equities Portfolio – First Quarter 2002
(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	-	47	5	39	1	2	32	126
Dividend income from equities	13	724	228	-	541	423	609	2 538
Capital gains(losses)	6 938	6 109	1 872	-	(4 019)	1 122	(270)	11 752
Subtotal: gross investment income(loss)	6 951	6 880	2 105	39	(3 477)	1 547	371	14 416
Income from securities lending and commission recapture	7	20	7	-	23	8	16	81
Investment manager fees	(92)	(101)	(239)	(61)	(203)	(146)	(216)	(1 058)
Custody fees	(11)	(56)	(47)	(6)	(59)	(67)	(64)	(310)
Financial advisory and other investment management fees	(11)	(11)	(8)	(1)	(20)	(16)	(21)	(88)
Taxes	-	(14)	(18)	-	-	11	3	(18)
Other investment expenses	-	2	-	-	-	3	1	6
Net investment income (loss)	6 844	6 720	1 800	(29)	(3 736)	1 340	90	13 029

IV. RATE OF RETURN AND PERFORMANCE COMPARISON

15. There was an overall positive return of 0.52% in the first quarter of 2002, net of investment expenses and movements on exchange.

16. 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 JP Morgan Global Government Bonds Index and the Morgan Stanley Capitalization Index for global equities.

17. 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 65 basis points in the first quarter of 2002. The underperformance was due to the equities portfolio.

Table 6: Performance Compared with Benchmarks – First Quarter 2002

Portfolio	Rate of Return (%)		Out(Under) Performance
	Portfolio	Benchmark	
Internally managed portfolio	0.37	0.37	0.00
Global fixed-interest	(0.46)	(0.53)	0.07
Diversified fixed-interest	0.57	0.07	0.50
Total fixed-interest	(0.05)	(0.18)	0.13
Japanese equities	7.34	6.42	0.92
Asian and Australasian equities (excluding Japanese)	7.32	7.99	(0.67)
Emerging markets equities	2.80	11.69	(8.89)
North American equities	(1.64)	1.88	(3.52)
European equities	1.25	2.74	(1.49)
Global equities	0.36	1.05	(0.69)
Total equities	1.71	3.63	(1.92)
Overall portfolio gross rate of return	0.64	1.29	(0.65)
Less expenses	(0.12)	(0.12)	0.00
Overall portfolio net rate of return	0.52	1.17	(0.65)

18. The total fixed-interest portfolio returned a negative -0.05% in the first quarter of 2002, but outperformed its benchmark by 13 basis points. The outperformance was especially due to the selection by diversified fixed-interest managers of corporate and emerging markets bonds.

19. The total equities portfolio returned 1.71% in the first quarter of 2002, in particular due to strong returns in Japanese, Asian, Australasian and emerging markets equities. In aggregate, the equities portfolio underperformed its benchmark by 192 basis points. A significant portion of the underperformance was due to emerging markets equities, where the subportfolio suffered from being underweight in Republic of Korea equities (where the market continued its strong rebound) and overweight in the Turkish market, which performed poorly. North American equities were affected by negative stock selection in several industry sectors.

20. Details of the performance in the first quarter of 2002 are presented in the form of graphs in Annex III.

V. CURRENCY COMPOSITION

21. The majority of IFAD's commitments are expressed in Special Drawing Rights (SDRs). 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.

22. The Executive Board of the International Monetary Fund (IMF) 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.

23. New units for each of the four currencies comprising the valuation basket were determined on 29 December 2000 so 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 March 2002, are shown in Table 7.

Table 7: Units and Weights Applicable to the SDR Valuation Basket

Currency	1 January 2002		31 March 2002	
	Units	Percentage Weight	Units	Percentage Weight
USD	0.577	46.0	0.577	46.3
EUR	0.426	29.9	0.426	29.8
JPY	21.000	12.7	21.000	12.7
GBP	0.0984	11.4	0.0984	11.2
Total		100.0		100.0

24. As of 31 March 2002, assets in the form of cash, investments, promissory notes and amounts receivable from contributors under the Fourth and Fifth Replenishments amounted to USD 2 286 345 000 equivalent (31 December 2001 – USD 2 325 733 000 equivalent), as indicated in Table 8 below.

Table 8: Currency Composition of Assets at 31 March 2002
(USD '000 equivalent)

Currency Group	Cash and Investments	Promissory Notes	Amounts Receivable from Contributors	Total
USD	856 372	59 849	41 363	957 584
EUR	413 944	84 176	39 660	537 780
JPY	248 692	13 795	-	262 487
GBP	208 624	18 811	-	227 435
Other	176 159	95 330	29 570	301 059
Total	1 903 791	271 961	110 593	2 286 345

25. Holdings of assets denominated in currencies not included in the SDR valuation basket amounted to USD 301 059 000 equivalent at 31 March 2002 (31 December 2001 – USD 401 647 000 equivalent). These are allocated to currency groups, as indicated in Table 9.

Table 9: Allocation of Assets to Currency Groups at 31 March 2002
(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	957 584	56 493	-	89 551	2 122	1 105 750
EUR	537 780	-	152 893	-	-	690 673
JPY	262 487	-	-	-	-	262 487
GBP	227 435	-	-	-	-	227 435
Total	1 985 286	56 493	152 893	89 551	2 122	2 286 345

26. The alignment of assets by currency group against the SDR valuation basket at 31 March 2002 is shown in Table 10. The balance of the General Reserve at 31 March 2002 and the commitment for grants denominated in United States dollars on the same date amounted to USD 95 000 000 and USD 59 433 000, respectively.

Table 10: Alignment of Assets per Currency Group with the Currency Composition of the SDR Valuation Basket at 31 March 2002
(USD '000 equivalent)

Currency Group	Amount per Currency Group	Less: Commitment Denominated in USD	Net Assets per Currency Group	Net Assets (%) 31.3.2002	Compare SDR Weights (%) 31.3.2002
USD	1 105 750	(154 433)	951 317	44.6	46.3
EUR	690 673	-	690 673	32.4	29.8
JPY	262 487	-	262 487	12.3	12.7
GBP	227 435	-	227 435	10.7	11.2
Total	2 286 345	(154 433)	2 131 912	100.0	100.0

27. As of 31 March 2002, there were excess EUR currency group holdings and shortfalls in USD currency group holdings and, to a smaller extent, JPY and GBP currency group holdings. The excess EUR currency group holdings arose in 2001 partly due to the receipt of instruments of contributions and promissory notes to the Fifth Replenishment from a large number of European Member States, and partly due to an overweight EUR currency position in the global government bonds portfolio. In the first quarter of 2002, a part of the excess EUR currency group holdings had been converted into JPY and USD in order to cover the shortfalls in these currencies. The remaining currency shortfalls of USD, JPY and GBP are expected to partly rectify themselves with the receipt of contributions to the Fifth Replenishment denominated in those currencies.

VI. RISK MEASUREMENT

28. 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.

29. As of 31 March 2002, the standard deviation of IFAD's policy allocation according to the new investment policy was 2.9%, based on five years of historical monthly data. This means that, with a 67% probability, the annual return will fall within the range of +/-2.9% of the target rate of return.



30. 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 11 shows the VaR of IFAD's actual portfolio and current policy allocation, based on five years of historical monthly data. At 31 March 2002, the VaR of the actual portfolio was significantly lower than at the previous quarter end, due to the liquidation of five equity portfolios in the first quarter of 2002 and the currently high cash holdings in the investment portfolio. The portfolio's VaR is higher than the policy allocation because the new investment policy is being implemented gradually in the actual portfolio.

Table 11: Value-at-Risk (VaR)

(Forecast horizon of three months; confidence level 95%)

Date	Portfolio		Policy ¹	
	VaR %	Amount USD '000	VaR %	Amount USD '000
31 March 2002	2.9	54 700	2.4	45 700
31 December 2001	5.5	105 100	6.2	119 100

¹ The new investment policy is reflected in the policy VaR as of 31 March 2002.

ANNEX I

EQUITY SALES IN MARCH 2002

Account	Mandate Type	Year of Funding	Initial Funding	Cumulative Income to 8 March 2002	Cumulative Exchange Adjustments to 8 March 2002	Total Proceeds
U770	Japanese equities	1997	103.6	6.6	(6.4)	103.8
U771	Asian and Australasian equities	1997	80.0	29.9	(9.0)	100.9
U773	North American large cap equities	1998	80.0	25.6	0.0	105.6
U782	European large cap equities	1999	60.0	4.1	(8.6)	55.5
U786	Global equities	2000	60.9	0.3	(2.0)	59.2
Total			384.5	66.5	(26.0)	425.0



ANNEX II

**ANALYSIS OF THE PORTFOLIO BY TYPE OF MANDATE
AND BY INSTRUMENT AS AT 31 MARCH 2002**

Instruments	Total Fixed-Interest 31 March 2002	Total Equities 31 March 2002	Overall Portfolio 31 March 2002	Overall Portfolio 31 December 2001
Cash	388 838	33 972	422 810	71 702
Time deposits	112 279	50 563	162 842	131 922
Fixed-interest	1 010 140	-	1 010 140	994 841
Equities	-	355 288	355 288	755 927
Futures	(193)	-	(193)	(39)
Options	98	-	98	530
Open trades	(65 824)	(1 132)	(66 956)	(58 018)
Accrued interest income	18 139	-	18 139	18 989
Dividends receivable	-	900	900	499
Non-convertible currencies	723	-	723	736
Total	1 464 200	439 591	1 903 791	1 917 089
Actual allocation (%)	76.9	23.1	100.0	100.0
Policy allocation (%) ¹	72.0	10.0	82.0	100.0
Difference in allocation (%)	4.9	13.1	18.0	-

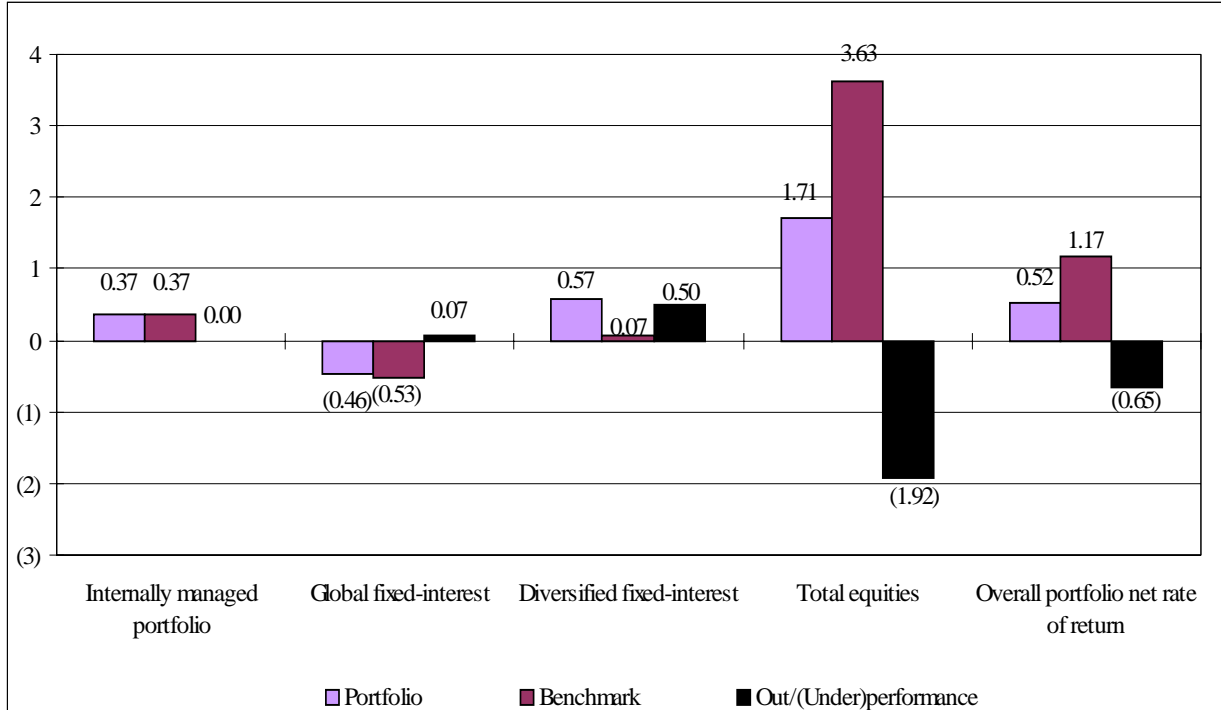
¹The policy allocation has an allocation of 18% to global inflation-indexed bonds. The asset class was unfunded as of 31 March 2002.



ANNEX III

PERFORMANCE FIRST QUARTER 2002

OVERALL PORTFOLIO



EQUITIES PORTFOLIO

