



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

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

**I. INTRODUCTION**

1. The following report on IFAD's investment portfolio covers the three-month period ending 30 June 2002 and includes comparative figures for the first quarter of 2002 and for earlier years.
2. The report includes a new section concerning the implementation of the new investment policy, and sections on asset allocation, investment income, rate of return and performance comparison, currency composition and risk measurement.

**II. IMPLEMENTATION OF THE NEW INVESTMENT POLICY**

3. The new investment policy, which was adopted in December 2001, is compared with the former policy in Annex I.
4. During the first quarter of 2002, some 52% of IFAD's holdings of equities were sold without incurring any losses, bringing the remaining holdings of equities (net of cash balances held pending transfer) to some USD 370 million or 19.4% of the investment portfolio. Equity market conditions worsened throughout the second quarter, and it was not possible to sell further equity holdings without incurring losses. Currently, IFAD's equity mandates represent 17.5% of the investment portfolio. It is recalled that under the new investment policy, the allocation to equities is 10% of the total portfolio.
5. Agreement on revised guidelines has been reached with the managers handling IFAD's diversified fixed-income mandates. These reflect the credit floor of AA- included in the new investment policy and due to enter in force on 1 August 2002. Arrangements have also been made to bring the funding of the diversified fixed-income mandates up to the level specified in the new investment policy as soon as the new guidelines become effective.
6. IFAD has appointed a transition manager who is mandated to consolidate the current equity mandates into three mandates corresponding to emerging markets, North American and European

mandates. This will eliminate the equity managers who have shown a pattern of underperformance against the benchmark. It is expected that the transition will be completed in September 2002.

7. An implementation timetable has been set up to cover the other recommendations of the expert group that reviewed IFAD's investment policies in 2001. These include: reducing operational risk; introducing guidelines that cover socially, ethically and ecologically acceptable investing; reviewing the membership of the Investments Advisory Committee; and reporting to the Executive Board. It is foreseen that these matters will be addressed during the current year.

8. When market circumstances permit, the proportion of equities will be further reduced to 10%, bearing in mind the criterion of avoiding unnecessary losses.

### III. ASSET ALLOCATION

9. Table 1 compares the actual asset allocation of the investment portfolio's major asset classes to their policy allocation. In the second quarter, a transfer amounting to USD 69 million, representing part of the proceeds of the sale of five equities portfolios in March 2002 as well as dividends, was made from the equities portfolio to the internally managed portfolio. Changes in ratios also reflect differences in income and large movements on exchange, due to the depreciation of the United States dollar against other currencies. Additionally, there was a net outflow of USD 44 506 000 equivalent from the overall portfolio in order to cover disbursements for loans, grants and administrative expenses.

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

|  | Internally<br>Managed<br>Portfolio | Global<br>Government<br>Bonds<br>Portfolio | Global<br>Inflation-<br>Indexed<br>Bonds<br>Portfolio <sup>1</sup> | Diversified<br>Fixed-<br>Interest<br>Portfolio | Equities<br>Portfolio | Overall<br>Portfolio |
|--|------------------------------------|--|--|--|-----------------------|----------------------|
| <b>Opening balance (31 March 2002)</b>                     | <b>416 252</b>                     | <b>826 666</b>                             | <b>-</b>   | <b>221 282</b>                                 | <b>439 591</b>        | <b>1 903 791</b>     |
| Gross investment income (loss)                             | 1 409                              | 27 347                                     | -  | 3 396  | (49 276)              | (17 124)             |
| Income from securities lending and<br>commission recapture | -                                  | 15   | -  | 11   | 27                    | 53                   |
| Fees, charges and taxes                                    | (26)                               | (647)                                      | -  | (291)  | (1 037)               | (2 001)              |
| <b>Net investment income (loss)</b>                        | <b>1 383</b>                       | <b>26 715</b>                              | <b>-</b>   | <b>3 116</b>                                   | <b>(50 286)</b>       | <b>(19 072)</b>      |
| Transfers due to allocation                                | 68 956                             | -  | -  | -  | (68 956)              | -                    |
| Transfers due to expenses                                  | (1 835)                            | 627  | -  | 256  | 952                   | -                    |
| <b>Transfers between portfolios</b>                        | <b>67 121</b>                      | <b>627</b>                                 | <b>-</b>   | <b>256</b>                                     | <b>(68 004)</b>       | <b>-</b>             |
| Other net flows <sup>2</sup>                               | (44 506)                           | -  | -  | -  | -                     | (44 506)             |
| Movements on exchange                                      | 18 533                             | 73 323                                     | -  | 194  | 18 905                | 110 955              |
| <b>Closing balance (30 June 2002)</b>                      | <b>458 783</b>                     | <b>927 331</b>                             | <b>-</b>   | <b>224 848</b>                                 | <b>340 206</b>        | <b>1 951 168</b>     |
| Actual allocation (%)                                      | 23.5                               | 47.5                                       | -  | 11.5   | 17.5                  | 100.0                |
| Policy allocation (%)                                      | 5.0                                | 44.0                                       | 18.0   | 23.0   | 10.0                  | 100.0                |
| <b>Difference in allocation (%)</b>                        | <b>18.5</b>                        | <b>3.5</b>                                 | <b>(18.0)</b>  | <b>(11.5)</b>                                  | <b>7.5</b>            | <b>-</b>             |

<sup>1</sup> The policy allocation has an allocation of 18% to global inflation-indexed bonds. The asset class was unfunded as of 30 June 2002.

<sup>2</sup> These net outflows cover disbursements for loans, grants and administrative expenses.

#### IV. INVESTMENT INCOME

10. Market conditions during the second quarter of 2002 were largely driven by negative sentiment resulting from corporate accounting scandals, causing a strong sell-off in equity markets and a flight to quality, such as government bonds. This trend was reinforced by weak corporate earnings and worries about terrorist activities. Fundamental economic conditions, however, remained relatively benign during the quarter.

11. Table 2 shows investment income for the four major asset classes. Aggregate net investment income in the second quarter of 2002 amounted to a loss of USD 19 072 000, which added to the gain at USD 9 964 000 equivalent in the first quarter of 2002, amounts to a loss of USD 9 108 000 equivalent for the first six months of 2002 (2001 – a loss of USD 42 982 000 equivalent).

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

| Portfolio                  | 2nd Quarter 2002 | 1st Quarter 2002 | Year to Date 2002 | 2001            | 2000            | 1999           | 1998           | 1997           |
|----------------------------|------------------|------------------|-------------------|-----------------|-----------------|----------------|----------------|----------------|
| Internally managed         | 1 383            | 468              | 1 851             | 2 050           | 3 654           | 3 114          | 4 834          | 18 633         |
| Global government bonds    | 26 715           | (4 493)          | 22 222            | 41 471          | 74 625          | (43 977)       | 195 506        | 154 228        |
| Diversified fixed-interest | 3 116            | 960              | 4 076             | 13 783          | 17 615          | 3 832          | 6 130          | -              |
| Equities                   | (50 286)         | 13 029           | (37 257)          | (100 286)       | (143 744)       | 231 500        | (18 571)       | (8 921)        |
| <b>Overall portfolio</b>   | <b>(19 072)</b>  | <b>9 964</b>     | <b>(9 108)</b>    | <b>(42 982)</b> | <b>(47 850)</b> | <b>194 469</b> | <b>187 899</b> | <b>163 940</b> |

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

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

|  | Fixed-Interest Portfolio | Equities Portfolio | Overall Portfolio |
|--|--------------------------|--------------------|-------------------|
| Interest from fixed-interest investments and bank accounts | 15 892                   | 42                 | 15 934            |
| Dividend income from equities                              | -                        | 2 812              | 2 812             |
| Realized capital gains (losses)                            | (86)                     | (7 956)            | (8 042)           |
| Unrealized capital gains (losses)                          | 16 346                   | (44 174)           | (27 828)          |
| <b>Subtotal: Gross investment income (loss)</b>            | <b>32 152</b>            | <b>(49 276)</b>    | <b>(17 124)</b>   |
| Income from securities lending and commission recapture    | 26                       | 27                 | 53                |
| Investment manager fees                                    | (617)                    | (581)              | (1 198)           |
| Custody fees   | (183)                    | (199)              | (382)             |
| Financial advisory and other investment-management fees    | (135)                    | (56)               | (191)             |
| Taxes  | (2)                      | (208)              | (210)             |
| Other investment expenses                                  | (27)                     | 7                  | (20)              |
| <b>Net investment income (loss)</b>                        | <b>31 214</b>            | <b>(50 286)</b>    | <b>(19 072)</b>   |

13. Table 4 shows net income for the various sectors of the fixed-interest portfolio in the second quarter of 2002. In aggregate, net income from fixed-interest investments amounted to USD 31 214 000 equivalent in the second quarter of 2002. All sectors of the fixed-interest portfolio, and in particular government bonds, contributed positively.

**Table 4: Investment Income on the Fixed-Interest Portfolio – Second Quarter 2002**  
(USD '000 equivalent)

|  | Internally<br>Managed<br>Portfolio | Global<br>Government<br>Bonds Portfolio | Diversified<br>Fixed-Interest<br>Portfolio | Total Fixed-<br>Interest<br>Portfolio |
|--|------------------------------------|---|--|---------------------------------------|
| Interest from fixed-interest investments and bank accounts | 1 409                              | 11 408                                  | 3 075                                      | 15 892                                |
| Dividend income from equities                              | -                                  | -                                       | -  | -                                     |
| Realized capital gains (losses)                            | -                                  | (99)                                    | 13   | (86)                                  |
| Unrealized capital gains                                   | -                                  | 16 038                                  | 308  | 16 346                                |
| <b>Subtotal: Gross investment income</b>                   | <b>1 409</b>                       | <b>27 347</b>                           | <b>3 396</b>                               | <b>32 152</b>                         |
| Income from securities lending and commission recapture    | -                                  | 15                                      | 11   | 26                                    |
| Investment manager fees                                    | -                                  | (430)                                   | (187)                                      | (617)                                 |
| Custody fees   | (26)                               | (105)                                   | (52)                                       | (183)                                 |
| Financial advisory and other investment-management fees    | -                                  | (107)                                   | (28)                                       | (135)                                 |
| Taxes  | -                                  | (1)                                     | (1)  | (2)                                   |
| Other investment expenses                                  | -                                  | (4)                                     | (23)                                       | (27)                                  |
| <b>Net investment income</b>                               | <b>1 383</b>                       | <b>26 715</b>                           | <b>3 116</b>                               | <b>31 214</b>                         |

14. In aggregate, net losses from equities investments in the second quarter of 2002 amounted to USD 50 286 000 equivalent, as shown by subportfolios in Table 5. With the exception of the currency overlay subportfolio, all remaining equity subportfolios contributed negatively in the second quarter of 2002.

**Table 5: Investment Income on the Equities Portfolio – Second Quarter 2002**  
(USD '000 equivalent)

|  | Japanese<br>Equities <sup>1</sup> | Asian and<br>Australasian<br>Equities <sup>1</sup> | Emerging<br>Markets<br>Equities | Currency<br>Overlay | North<br>American<br>Equities | European<br>Equities | Global<br>Equities | Total<br>Equities<br>Portfolio |
|--|-----------------------------------|--|---------------------------------|---------------------|-------------------------------|----------------------|--------------------|--------------------------------|
| Interest from fixed-interest investments and bank accounts | -                                 | 8  | 11                              | 41                  | 3                             | 6                    | (27)               | 42                             |
| Dividend income from equities                              | -                                 | 165  | 1 058                           | -                   | 182                           | 728                  | 679                | 2 812                          |
| Realized capital gains (losses)                            | 16                                | 124  | 3 724                           | -                   | (2 631)                       | (2 553)              | (6 636)            | (7 956)                        |
| Unrealized capital gains (losses)                          | (30)                              | (92)   | (9 856)                         | -                   | (9 616)                       | (11 392)             | (13 188)           | (44 174)                       |
| <b>Subtotal: Gross investment income (loss)</b>            | <b>(14)</b>                       | <b>205</b>   | <b>(5 063)</b>                  | <b>41</b>           | <b>(12 062)</b>               | <b>(13 211)</b>      | <b>(19 172)</b>    | <b>(49 276)</b>                |
| Income from securities lending and Commission recapture    | -                                 | (2)  | 6                               | -                   | 9                             | 8                    | 6                  | 27                             |
| Investment manager fees                                    | -                                 | (50)   | (245)                           | 61                  | (107)                         | (97)                 | (143)              | (581)                          |
| Custody fees   | (2)                               | 2  | (54)                            | (8)                 | (38)                          | (31)                 | (68)               | (199)                          |
| Financial advisory and other Investment-management fees    | -                                 | (1)  | (10)                            | (1)                 | (10)                          | (12)                 | (22)               | (56)                           |
| Taxes  | -                                 | (1)  | (33)                            | -                   | (2)                           | (106)                | (66)               | (208)                          |
| Other investment expenses                                  | -                                 | 1  | -                               | -                   | -                             | -                    | 6                  | 7                              |
| <b>Net investment income (loss)</b>                        | <b>(16)</b>                       | <b>154</b>   | <b>(5 399)</b>                  | <b>93</b>           | <b>(12 210)</b>               | <b>(13 449)</b>      | <b>(19 459)</b>    | <b>(50 286)</b>                |

<sup>1</sup> The portfolio was liquidated in March 2002. Income and expenses for the second quarter of 2002 refer to transactions that could not be effected in March 2002.

## V. RATE OF RETURN AND PERFORMANCE COMPARISON

15. There was an overall negative return of –1.02% in the second 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 51 basis points in the second quarter of 2002. The underperformance was due to the equities portfolio and also, to a smaller extent, to the fixed-interest portfolio.

**Table 6: Performance Compared with Benchmarks**

| Portfolio   | Second Quarter 2002 |               |                         | Year to Date 2002 |               |                         |
|---|---------------------|---------------|-------------------------|-------------------|---------------|-------------------------|
|   | Rate of Return %    |               | Out/(Under) Performance | Return %          |               | Out/(Under) Performance |
|   | Portfolio           | Benchmark     |                         | Portfolio         | Benchmark     |                         |
| Internally managed portfolio                                      | 0.33                | 0.33          | -                       | 0.70              | 0.70          | -                       |
| Global government bonds   | 3.31                | 3.21          | 0.10                    | 2.83              | 2.66          | 0.17                    |
| Diversified fixed-interest  | 1.53                | 3.52          | (1.99)                  | 2.12              | 3.59          | (1.47)                  |
| <b>Total fixed-interest</b>                                       | <b>2.19</b>         | <b>2.43</b>   | <b>(0.24)</b>           | <b>2.14</b>       | <b>2.24</b>   | <b>(0.10)</b>           |
| Japanese equities <sup>1</sup>                                    | (0.02)              | -             | -                       | 7.32              | 6.42          | 0.90                    |
| Asian and Australasian equities (excluding Japanese) <sup>1</sup> | 0.21                | -             | -                       | 7.54              | 7.99          | (0.45)                  |
| Emerging markets equities   | (6.46)              | (8.89)        | 2.43                    | (3.85)            | 1.76          | (5.61)                  |
| North American equities   | (16.05)             | (12.13)       | (3.92)                  | (17.43)           | (10.48)       | (6.95)                  |
| European equities   | (15.13)             | (12.68)       | (2.45)                  | (14.07)           | (10.28)       | (3.79)                  |
| Global equities   | (13.97)             | (13.14)       | (0.83)                  | (13.66)           | (12.22)       | (1.44)                  |
| <b>Total equities</b>   | <b>(11.46)</b>      | <b>(9.93)</b> | <b>(1.53)</b>           | <b>(9.94)</b>     | <b>(6.65)</b> | <b>(3.29)</b>           |
| <b>Overall portfolio gross rate of return</b>                     | <b>(0.92)</b>       | <b>(0.41)</b> | <b>(0.51)</b>           | <b>(0.28)</b>     | <b>0.87</b>   | <b>(1.15)</b>           |
| <b>Less expenses</b>  | <b>(0.10)</b>       | <b>(0.10)</b> | <b>-</b>                | <b>(0.23)</b>     | <b>(0.23)</b> | <b>-</b>                |
| <b>Overall portfolio net rate of return</b>                       | <b>(1.02)</b>       | <b>(0.51)</b> | <b>(0.51)</b>           | <b>(0.51)</b>     | <b>0.64</b>   | <b>(1.15)</b>           |

<sup>1</sup> The portfolio was liquidated in March 2002.

18. The total fixed-interest portfolio returned a positive 2.19% in the second quarter of 2002, but underperformed its benchmark by 24 basis points.

19. The total equities portfolio returned a negative –11.46% in the second quarter of 2002, as all remaining equity mandates showed strongly negative returns. In aggregate, the equities portfolio underperformed its benchmark by 153 basis points. The North American equities portfolio had the most significant underperformance as the portfolio's sector allocation and stock selection were negative in several sectors. Also the European equities portfolio produced a notable underperformance, stemming from negative selection in European small capitalization stocks. The smallest negative contribution stemmed from the emerging markets portfolio, which also outperformed its benchmark due to positive stock selection in most countries.

20. Details of the performance in the six-month period ending 30 June 2002 are presented in the form of graphs in Annex II of this report.

## VI. 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 30 June 2002, are shown in Table 7.

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

| Currency     | 1 January 2002 |                   | 30 June 2002 |                   |
|--------------|----------------|-------------------|--------------|-------------------|
|              | Units          | Percentage Weight | Units        | Percentage Weight |
| USD          | 0.577          | 46.0              | 0.577        | 43.4              |
| EUR          | 0.426          | 29.9              | 0.426        | 32.0              |
| JPY          | 21.000         | 12.7              | 21.000       | 13.2              |
| GBP          | 0.0984         | 11.4              | 0.0984       | 11.4              |
| <b>Total</b> |                | <b>100.0</b>      |              | <b>100.0</b>      |

24. As of 30 June 2002, assets in the form of cash, investments, promissory notes and amounts receivable from contributors under the Fourth and Fifth Replenishments amounted to USD 2 432 111 000 equivalent (31 December 2001 – USD 2 325 733 000 equivalent), as indicated in Table 8.

**Table 8: Currency Composition of Assets at 30 June 2002**  
(USD '000 equivalent)

| Currency Group | Cash and Investments | Promissory Notes | Amounts Receivable from Contributors | Total            |
|----------------|----------------------|------------------|--------------------------------------|------------------|
| USD            | 769 369              | 81 463           | 55 947                               | 906 779          |
| EUR            | 444 757              | 96 008           | 45 348                               | 586 113          |
| JPY            | 318 779              | 28 829           | 13 445                               | 361 053          |
| GBP            | 228 656              | 20 316           | -                                    | 248 972          |
| Other          | 189 607              | 105 877          | 33 710                               | 329 194          |
| <b>Total</b>   | <b>1 951 168</b>     | <b>332 493</b>   | <b>148 450</b>                       | <b>2 432 111</b> |

25. Holdings of assets denominated in currencies not included in the SDR valuation basket amounted to USD 329 194 000 equivalent at 30 June 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 30 June 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            | 906 779                           | 57 394   | -  | 104 937   | 2 110                      | 1 071 220                  |
| EUR            | 586 113                           | -  | 164 753  | -   | -                          | 750 866                    |
| JPY            | 361 053                           | -  | -  | -   | -                          | 361 053                    |
| GBP            | 248 972                           | -  | -  | -   | -                          | 248 972                    |
| <b>Total</b>   | <b>2 102 917</b>                  | <b>57 394</b>                                      | <b>164 753</b>   | <b>104 937</b>  | <b>2 110</b>               | <b>2 432 111</b>           |

26. The alignment of assets by currency group against the SDR valuation basket at 30 June 2002 is shown in Table 10. The balance of the General Reserve at 30 June 2002 and the commitment for grants denominated in United States dollars on the same date amounted to USD 95 000 000 and USD 59 977 000 respectively.

**Table 10: Alignment of Assets per Currency Group with the Currency Composition of the SDR Valuation Basket at 30 June 2002**  
(USD '000 equivalent)

| Currency Group | Amount per Currency Group | Less: Commitment Denominated in USD | Net Assets per Currency Group | Net Assets % 30 June 2002 | Compare SDR Weights % 30 June 2002 |
|----------------|---------------------------|-------------------------------------|-------------------------------|---------------------------|------------------------------------|
| USD            | 1 071 220                 | (154 977)                           | 916 243                       | 40.2                      | 43.4                               |
| EUR            | 750 866                   | -                                   | 750 866                       | 33.0                      | 32.0                               |
| JPY            | 361 053                   | -                                   | 361 053                       | 15.9                      | 13.2                               |
| GBP            | 248 972                   | -                                   | 248 972                       | 10.9                      | 11.4                               |
| <b>Total</b>   | <b>2 432 111</b>          | <b>(154 977)</b>                    | <b>2 277 134</b>              | <b>100.0</b>              | <b>100.0</b>                       |

27. As of 30 June 2002, there were shortfalls in United States dollar currency group holdings and, to a smaller extent, pound sterling currency group holdings. The shortfalls were offset by excess Japanese yen and euro currency group holdings. The shortfall in United States dollar currency group holdings increased during the second quarter of 2002, mainly due to the extended underweight position of the United States dollar in the global government bonds portfolio, while euro and Japanese yen were increasingly overweighed in the same portfolio.

## VII. 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 30 June 2002, the standard deviation of IFAD's policy allocation according to the new investment policy was 2.9%, compared to 3.0% for the actual portfolio, based on five years of historical monthly data.



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 30 June 2002, the VaR of the actual portfolio was lower than at previous quarter end. This was mainly because of the portfolio's somewhat lower equity allocation at 30 June 2002, a result of lower equity market prices. It is also noted that the portfolio's relatively low VaR is a function of the currently high cash holdings, which are pending further investments in fixed-interest investments. The portfolio's VaR still remains at a higher level than for the policy due to the new investment policy having been implemented only partially in the actual portfolio.

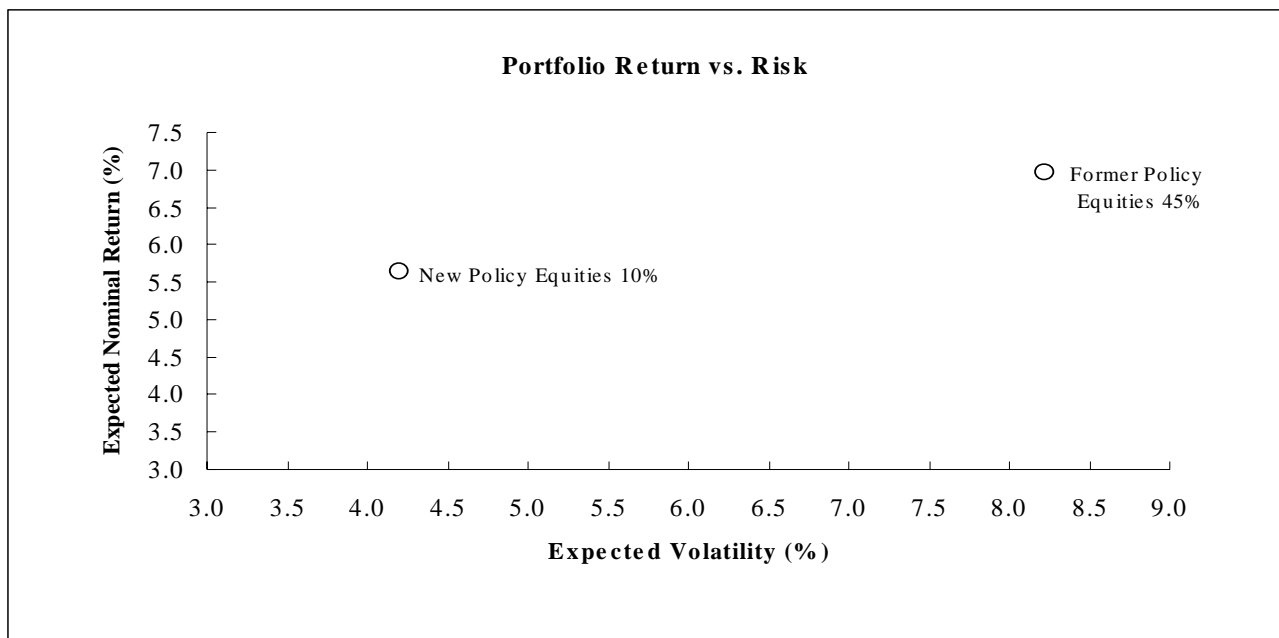
**Table 11: Value-at-Risk**  
(Forecast horizon of three months; confidence level 95%)

| Date             | Portfolio |                    | Policy <sup>1</sup> |                    |
|------------------|-----------|--------------------|---------------------|--------------------|
|                  | VaR %     | Amount<br>USD '000 | VaR %               | Amount<br>USD '000 |
| 30 June 2002     | 2.5       | 49 000             | 2.4                 | 46 800             |
| 31 March 2002    | 2.9       | 54 700             | 2.4                 | 45 700             |
| 31 December 2001 | 5.5       | 105 100            | 6.2                 | 119 100            |

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



## SUMMARY OF PORTFOLIO CHARACTERISTICS – NEW AND FORMER INVESTMENT POLICIES



| Asset Class <sup>1</sup>  | Assumptions      |              | New Policy | Former Policy |
|---|------------------|--------------|------------|---------------|
|   | Nominal Return % | Volatility % |            |               |
| Cash (%)  | 3.0              | 2.9          | 5.0        | 5.0           |
| Global government bonds (%)   | 5.3              | 5.6          | 44.0       | 40.0          |
| Diversified fixed-interest (%)  | 5.6              | 6.0          | 23.0       | 10.0          |
| Global inflation indexed bonds (%)  | 5.3              | 2.8          | 18.0       | -             |
| Global equities (%)   | 9.2              | 15.9         | 10.0       | 45.0          |
| Total (%)   |                  |              | 100.0      | 100.0         |
| <b>Return</b>   |                  |              |            |               |
| (i) Expected coupon/dividend payments (USD million) <sup>2</sup>            |                  |              | 98         | 74            |
| (ii) Expected nominal return (%)  |                  |              | 5.6        | 7.0           |
| (iii) Probability % of achieving in 3 years a minimum average return of 3 % |                  |              | 88         | 82            |
| (iv) Cumulative returns 3 years:  |                  |              |            |               |
| Expected cumulative return (%)  |                  |              | 17.9       | 22.4          |
| Expected minimum cumulative return % (95% confidence level)                 |                  |              | 3.4        | -6.1          |
| Expected maximum cumulative return % (95% confidence level)                 |                  |              | 32.5       | 50.9          |
| <b>Risk</b>   |                  |              |            |               |
| (v) Expected volatility (%)   |                  |              | 4.2        | 8.2           |
| (vi) Expected value-at-risk (USD million) <sup>3</sup>                      |                  |              | 139        | 271           |
| <b>Risk-adjusted return</b>   |                  |              |            |               |
| (vii) Sharpe ratio  |                  |              | 0.63       | 0.48          |

<sup>1</sup> The credit floor for fixed-interest investments is AA-.

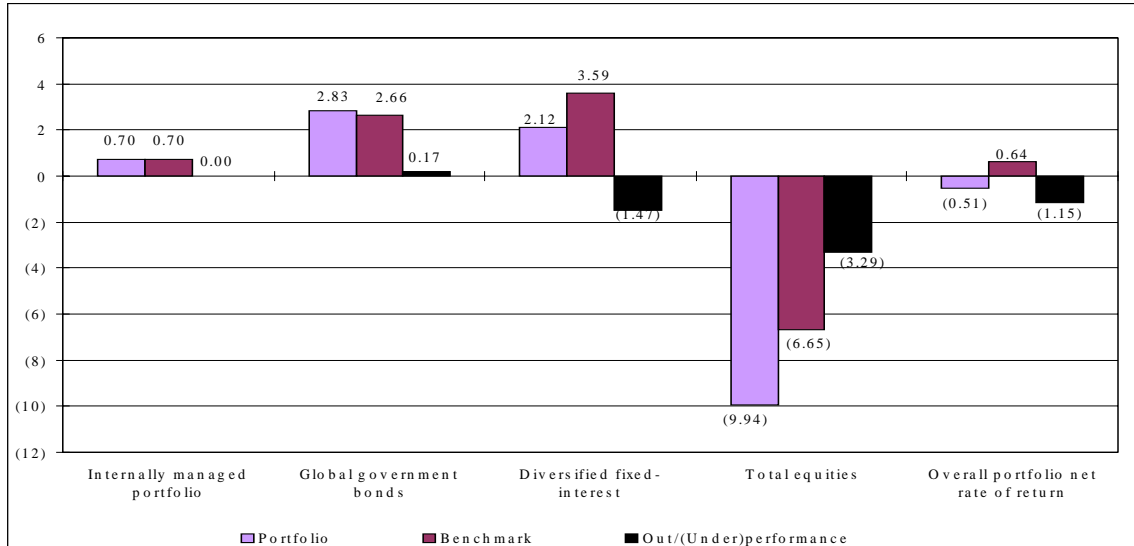
<sup>2</sup> Calculated for a total portfolio of USD 2 billion.

<sup>3</sup> Calculated in USD million with a one-year horizon and 95% confidence level, on the basis of a total portfolio of USD 2 billion.

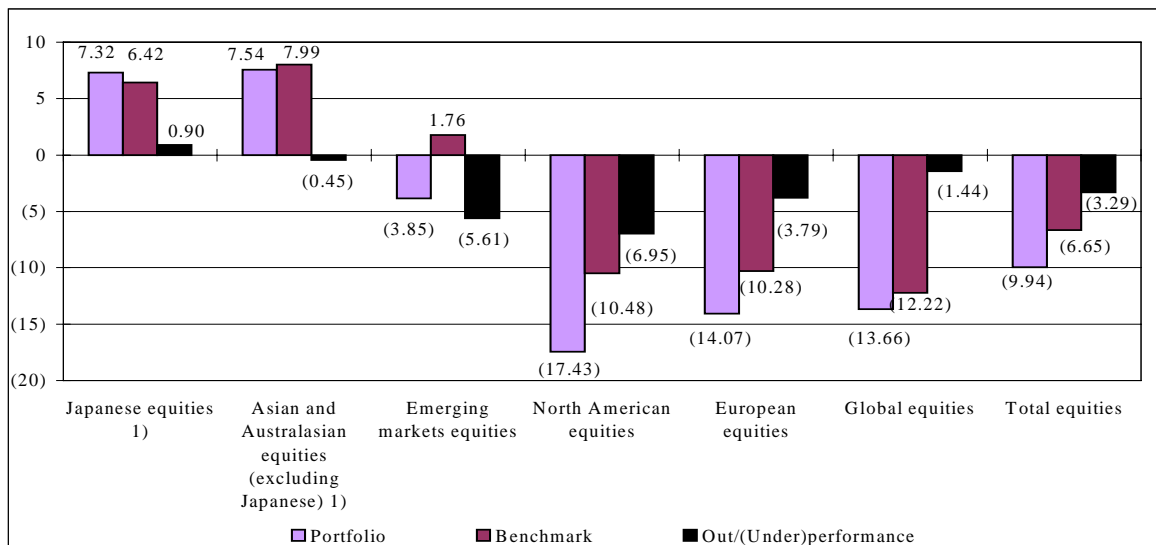


PERFORMANCE YEAR TO DATE 2002

OVERALL PORTFOLIO



EQUITIES PORTFOLIO



1) The portfolio was liquidated in March 2002.

