



IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
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**REPORT ON IFAD'S INVESTMENT PORTFOLIO FOR THE
SECOND QUARTER OF 2003**

ADDENDUM

I. INTRODUCTION

1. As indicated in document EB 2003/79/R.12, Report on IFAD's Investment Portfolio for the Second Quarter of 2003, the following addendum provides more detailed information on the portfolio's performance compared to benchmarks as well as risk measurement.

II. RATE OF RETURN AND PERFORMANCE COMPARISON

2. As noted in document EB 2003/79/R.12, there was an overall positive return of 3.02% in the second quarter of 2003, net of investment expenses and movements on exchange. Cumulatively, the overall return for the first six months of 2003 was 3.43%.

3. 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 indexes used are the J.P. Morgan Global Government Bonds Index for government bonds, Lehman Brothers United States Aggregate Index for diversified fixed-interest bonds, Standard & Poor's 500 Index for North American equities and Morgan Stanley Capitalization Index for European equities.

4. Table 1, which corresponds to Table 6 in document EB 2003/79/R.12, compares the return of each major section of the portfolio with the appropriate benchmark rate of return. The overall portfolio showed an outperformance of 25 basis points in the second quarter of 2003, with both fixed-interest and equities investments contributing to the outperformance.

**Table 1: Performance Compared with Benchmarks**

Portfolio	Second Quarter of 2003			Year to Date 2003		
	Rate of Return %		Out (Under)	Return %		Out (Under)
	Portfolio	Benchmark	Performance	Portfolio	Benchmark	Performance
Internally managed portfolio	0.28	0.28	0.00	0.63	0.63	0.00
Government bonds portfolio	2.26	1.96	0.30	3.76	3.39	0.37
Diversified fixed-interest portfolio	2.14	1.80	0.34	3.41	2.92	0.49
Inflation-indexed bonds portfolio ^a	-	-	-	-	-	-
Total fixed-interest portfolio	1.84	1.58	0.26	3.04	2.70	0.34
North American equities portfolio	16.47	14.89	1.58	12.96	10.76	2.20
European equities portfolio	13.73	15.57	(1.84)	1.48	2.68	(1.20)
Total equities portfolio	15.43	15.19	0.24	8.83	8.05	0.78
Overall portfolio gross rate of return	3.06	2.81	0.25	3.55	3.18	0.37
Less expenses	(0.04)	(0.04)	0.00	(0.12)	(0.12)	0.00
Overall portfolio net rate of return	3.02	2.77	0.25	3.43	3.06	0.37

^a The performance comparison against the benchmark started on 1 July for the asset class of inflation-indexed bonds, which was funded on 27 June 2003.

5. The total fixed-interest portfolio returned a positive 1.84% in the second quarter of 2003 and outperformed its aggregate benchmark by 26 basis points. Within the fixed-interest portfolio:

- The government bonds portfolio outperformed its benchmark by 30 basis points. Approximately one third of the outperformance was due to investment managers' country allocation. During the second quarter, the underweighting of Japanese bonds in particular contributed positively, since these significantly underperformed the overall market. The remainder of the outperformance was due to investment managers' duration strategy, particularly their long duration in the euro area.
- The diversified fixed-interest portfolio outperformed its benchmark by 34 basis points. Investment managers' selection of government and agency bonds contributed to the outperformance, although this was partially offset by the result of asset-backed securities.

6. The total equities portfolio returned a positive 15.43% in the second quarter of 2003 and outperformed its aggregate benchmark by 24 basis points. Within the equities portfolio:

- The North American equities portfolio, the biggest of the two equity sub-portfolios, contributed to the outperformance through its strong stock selection in several industry sectors such as health care, consumer staples, industrials and telecommunications.
- The European equities portfolio underperformed due to both its industry sector allocation and its stock selection. The portfolio suffered from being overweight in defensive sectors such as consumer staples, energy and health care. Stock selection was negative in most sectors, as the quarter's rallying stocks were largely underrepresented in the portfolio due to the investment manager's criteria that emphasize company balance-sheet strength and mid-to-long term earnings prospects.

**III. RISK MEASUREMENT**

7. As in prior quarterly reports, IFAD is disclosing the investment portfolio's standard deviation and value-at-risk (VaR) as of 30 June 2003. However, it would like to point out that variations in risk between 31 March 2003 and 30 June 2003 reflect some differences in the methodologies used by the two different global custodians providing risk measurement services on these dates.

8. 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. At 30 June 2003, the standard deviation of IFAD's current investment policy was 2.8%, compared to 2.5% for the actual portfolio.

9. 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 2 shows the VaR of IFAD's actual portfolio allocation and policy allocation. At 30 June 2003, the VaR of the actual portfolio was somewhat higher than at 31 March 2003, hence implying that the risk of the portfolio had slightly increased. However, as of 30 June 2003 the portfolio's VaR remained lower than the policy VaR.

Table 2: Value-at-Risk

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

Date	Portfolio		Policy ¹	
	VaR %	Amount USD '000	VaR %	Amount USD '000
30 June 2003 ²	2.1	46 100	2.3	51 500
31 March 2003	1.7	36 200	2.4	50 800
31 December 2002	1.8	38 100	2.4	50 300
30 September 2002	2.1	42 500	2.4	49 100
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

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

² The VaR figures as of 30 June 2003 reflect the use of a new risk measurement tool due to IFAD's change of global custodian.