



**IFAD**  
**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**  
**Executive Board – Seventy-Ninth Session**  
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**REPORT ON IFAD'S INVESTMENT PORTFOLIO FOR THE  
SECOND QUARTER OF 2003**

**I. INTRODUCTION**

1. The following report on IFAD's investment portfolio covers the three-month period ending 30 June 2003 and includes comparative figures for year-to-date 2003 and earlier years. In addition, the annex includes a report on the first quarter of 2003, as agreed at the Seventy-Eighth Session of the Executive Board.
2. This report includes the following five sections: investment policy, asset allocation, investment income, rate of return and performance comparison, and currency composition. More detailed information on the portfolio's performance compared to benchmarks will be provided together with risk measurement information in a separate addendum to this report.

**II. INVESTMENT POLICY**

3. IFAD's current investment policy was adopted in December 2001. In June 2003, an external investment manager was appointed to manage a mandate for global inflation-indexed bonds. On 27 June 2003, the manager was funded in the amount of USD 168 901 000 equivalent.
4. Also on 27 June 2003, an amount of USD 50 063 000 equivalent was invested in an inflation-indexed placement issued by the European Investment Bank. The placement is denominated in British pounds sterling and is accounted for at cost in IFAD's accounting and reporting (NB, other current holdings in IFAD's investment portfolio are marked to market).
5. The two investments in the asset class of inflation-indexed bonds, in the total amount of USD 218 964 000 equivalent, brought holdings of inflation-indexed bonds to 9.8% of the overall portfolio as of 30 June 2003, which is compared to the allocation of 18.0% indicated by the investment policy.

6. It is also recalled that IFAD selected a new global custodian in November 2002. Following completion of the preparatory work, the transition to the new custodian took place on 1 April 2003.

### III. ASSET ALLOCATION

7. Table 1 shows the movements affecting the investment portfolio's major asset classes in the second quarter of 2003 and compares the portfolio's actual asset allocation to the policy allocation. As part of the implementation of the current investment policy, transfers were made in the second quarter of 2003 from the internally managed portfolio to the inflation-indexed bonds portfolio in the total amount of USD 218 964 000 equivalent, as previously noted. From the internally managed portfolio there was also a net outflow of USD 10 221 000 equivalent, representing disbursements for loans, grants and administrative expenses, less cash receipts and encashments of Member States' contributions.

8. Changes in portfolio allocation ratios during the second quarter of 2003 also reflected positive movements in investment income and large movements on exchange, particularly in the government bonds portfolio. The movements on exchange were mainly due to the appreciation of the euro and the pound sterling against the United States dollar.

9. As a result of these movements, as of 30 June 2003, the investment portfolio showed excess allocations to the government bonds portfolio and, to a lesser extent, the internally managed portfolio. The excess allocations were mainly reflecting the fact that the asset class of inflation-indexed bonds was not yet fully funded. The allocation to equities was closely in line with policy allocation, while the diversified fixed-interest portfolio showed a small shortfall as of 30 June 2003.

**Table 1: Summary of Movements in Cash and Investment –  
Second Quarter of 2003**  
(USD '000 equivalent)

	<b>Internally Managed Portfolio</b>	<b>Government Bonds Portfolio</b>	<b>Diversified Fixed- Interest Portfolio</b>	<b>Inflation- Indexed Bonds Portfolio</b>	<b>Equities Portfolio</b>	<b>Overall Portfolio</b>
<b>Opening balance (31 March 2003)</b>	<b>404 499</b>	<b>1 052 914</b>	<b>469 953</b>	<b>-</b>	<b>188 049</b>	<b>2 115 415</b>
Net investment income	1 116	26 544	10 047	6	28 489	66 202
Transfers due to allocation <sup>a</sup>	(216 926)	-	-	218 964	(2 038)	-
Transfers due to expenses	(180)	17	(100)	2	261	-
Other net flows <sup>b</sup>	(10 221)	-	-	-	-	(10 221)
Movements on exchange	6 428	31 216	(58)	(2 898)	3 887	38 575
<b>Closing balance (30 June 2003)</b>	<b>184 716</b>	<b>1 110 691</b>	<b>479 842</b>	<b>216 074</b>	<b>218 648</b>	<b>2 209 971</b>
Actual allocation (%)	8.4	50.2	21.7	9.8	9.9	100.0
Policy allocation (%)	5.0	44.0	23.0	18.0	10.0	100.0
<b>Difference in allocation (%)</b>	<b>3.4</b>	<b>6.2</b>	<b>(1.3)</b>	<b>(8.2)</b>	<b>(0.1)</b>	<b>-</b>

<sup>a</sup> Transfer from the equity portfolio reflect the repatriation of dividends'

<sup>b</sup> These net outflows consist of Member States' contributions, less disbursements for loans, grants and administrative expenses.

#### IV. INVESTMENT INCOME

10. Market conditions in the second quarter of 2003 were characterized by rallying equity markets coupled with strong gains on fixed-interest investments. Equity markets rallied amid optimism that economic growth in the United States will accelerate and spark a global recovery. Following the strong gains on government bonds during most of the quarter, interest rates reached very low levels, hence contributing to making fixed-interest investments less desirable to investors.

11. Table 2 shows net investment income for the first and second quarters of 2003, year-to-date 2003 and earlier years for the investment portfolio's major asset classes. Aggregate net investment income in the second quarter of 2003 amounted to USD 66 202 000 equivalent, which, added to the gain of USD 8 294 000 equivalent in the first quarter of 2003, amounted to a gain of USD 74 496 000 equivalent for the first six months of 2003 as against USD 26 170 000 equivalent in 2002 as a whole.

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

Portfolio	Second Quarter 2003	First Quarter 2003	Year-to-Date 2003	2002	2001	2000	1999	1998	1997
Internally managed portfolio	1 116	1 260	2 376	4 082	2 050	3 654	3 114	4 834	18 633
Government bonds portfolio	26 544	13 871	40 415	85 541	41 471	74 625	(43 977)	195 506	154 228
Diversified fixed-interest portfolio	10 047	5 470	15 517	22 925	13 783	17 615	3 832	6 130	-
Inflation-indexed bonds portfolio	6	-	6	-	-	-	-	-	-
Equities portfolio	28 489	(12 307)	16 182	(86 378)	(100 286)	(143 744)	231 500	(18 571)	(8 921)
<b>Overall portfolio</b>	<b>66 202</b>	<b>8 294</b>	<b>74 496</b>	<b>26 170</b>	<b>(42 982)</b>	<b>(47 850)</b>	<b>194 469</b>	<b>187 899</b>	<b>163 940</b>

12. Table 3 provides details of net investment income earned during the second quarter of 2003 by major sections of the portfolio.

**Table 3: Investment Income on the Overall Portfolio –  
Second Quarter of 2003**  
(USD '000 equivalent)

	Fixed-Interest Portfolio	Equities Portfolio	Overall Portfolio
Interest from fixed-interest investments and bank accounts	18 026	3	18 029
Dividend income from equities	-	1 892	1 892
Realized capital gains/(losses)	14 466	(1 581)	12 885
Unrealized capital gains	5 693	28 437	34 130
<b>Subtotal: Gross investment income</b>	<b>38 185</b>	<b>28 751</b>	<b>66 936</b>
Income from securities lending and commission recapture	28	48	76
Investment manager fees	(315)	(253)	(568)
Custody fees	(69)	(18)	(87)
Financial advisory and other investment management fees	(100)	(13)	(113)
Taxes	-	(25)	(25)
Other investment expenses	16)	(1)	(17)
<b>Net investment income</b>	<b>37 713</b>	<b>28 489</b>	<b>66 202</b>

13. Table 4 shows net investment income for the fixed-interest portfolio sections in the second quarter of 2003. In aggregate, net income from fixed-interest investments amounted to USD 37 713 000 equivalent. All sections of this portfolio, and especially the government bonds portfolio, contributed positively to income.

**Table 4: Investment Income on the Fixed-Interest Portfolio –  
Second Quarter of 2003**  
(USD '000 equivalent)

	Internally Managed Portfolio	Government Bonds Portfolio	Diversified Fixed-Interest Portfolio	Inflation-Indexed Bonds Portfolio	Total Fixed-Interest Portfolio
Interest from fixed-interest investments and bank accounts	1 134	13 006	3 878	8	18 026
Dividend income from equities	-	-	-	-	-
Realized capital gains	-	10 175	4 291	-	14 466
Unrealized capital gains	-	3 558	2 135	-	5 693
<b>Subtotal: Gross investment income</b>	<b>1 134</b>	<b>26 739</b>	<b>10 304</b>	<b>8</b>	<b>38 185</b>
Income from securities lending and commission recapture	-	17	11	-	28
Investment manager fees	-	(110)	(205)	-	(315)
Custody fees	(18)	(33)	(16)	(2)	(69)
Financial advisory and other investment management fees	-	(69)	(31)	-	(100)
Taxes	-	-	-	-	-
Other investment expenses	-	-	(16)	-	(16)
<b>Net investment income</b>	<b>1 116</b>	<b>26 544</b>	<b>10 047</b>	<b>6</b>	<b>37 713</b>

14. Table 5 shows net investment income for the sub-portfolios of the equities portfolio in the second quarter of 2003. In aggregate, net gains from the equities portfolio in the second quarter of 2003 amounted to USD 28 489 000 equivalent. Both sub-portfolios, i.e. North American and European equities, contributed positively to income during the period.



**Table 5: Investment Income on the Equities Portfolio –  
Second Quarter of 2003**  
(USD '000 equivalent)

	<b>Emerging Markets Equities<sup>a</sup></b>	<b>North American Equities</b>	<b>European Equities</b>	<b>Total Equities Portfolio</b>
Interest from fixed-interest investments and bank accounts	-	3	-	3
Dividend income from equities	-	535	1 357	1 892
Realized capital gains/(losses)	-	867	(2 448)	(1 581)
Unrealized capital gains	-	17 905	10 532	28 437
<b>Subtotal: Gross investment income</b>	<b>-</b>	<b>19 310</b>	<b>9 441</b>	<b>28 751</b>
Income from securities lending and commission recapture	27	-	21	48
Investment manager fees	-	(172)	(81)	(253)
Custody fees	-	(13)	(5)	(18)
Financial advisory and other investment management fees	-	(8)	(5)	(13)
Taxes	-	-	(25)	(25)
Other investment expenses	-	-	(1)	(1)
<b>Net investment income</b>	<b>27</b>	<b>19 117</b>	<b>9 345</b>	<b>28 489</b>

<sup>a</sup> The portfolio was liquidated in October 2002. Income received in the second quarter of 2003 refers to income not received prior to 1 April 2003.

#### V. RATE OF RETURN AND PERFORMANCE COMPARISON

15. 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%.

16. The performance of the various sections 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.

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 outperformance of 25 basis points in the second quarter of 2003, with both fixed-interest and equities investments contributing to the outperformance.

**Table 6: 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 <sup>a</sup>	-	-	-	-	-	-
<b>Total fixed-interest portfolio</b>	<b>1.84</b>	<b>1.58</b>	<b>0.26</b>	<b>3.04</b>	<b>2.70</b>	<b>0.34</b>
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)
<b>Total equities portfolio</b>	<b>15.43</b>	<b>15.19</b>	<b>0.24</b>	<b>8.83</b>	<b>8.05</b>	<b>0.78</b>
<b>Overall portfolio gross rate of return</b>	<b>3.06</b>	<b>2.81</b>	<b>0.25</b>	<b>3.55</b>	<b>3.18</b>	<b>0.37</b>
<b>Less expenses</b>	<b>(0.04)</b>	<b>(0.04)</b>	<b>0.00</b>	<b>(0.12)</b>	<b>(0.12)</b>	<b>0.00</b>
<b>Overall portfolio net rate of return</b>	<b>3.02</b>	<b>2.77</b>	<b>0.25</b>	<b>3.43</b>	<b>3.06</b>	<b>0.37</b>

<sup>a</sup> The performance comparison against the benchmark will start on 1 July for the asset class of inflation-indexed bonds, which was funded on 27 June 2003.

18. 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. Both government bonds and diversified fixed-interest bonds contributed to the outperformance.

19. The total equities portfolio returned a positive 15.43% in the second quarter of 2003 and outperformed its aggregate benchmark by 24 basis points. The outperformance stemmed from the North American equities portfolio, the bigger of the two equity sub-portfolios, and was partially offset by an underperformance in the European equities portfolio.

20. More detailed information on the portfolio's performance compared to benchmarks will be provided together with risk measurement information in a separate addendum to this report.

## VI. CURRENCY COMPOSITION

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



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 2001 and 30 June 2003, are shown in Table 7.

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

Currency	1 January 2001		30 June 2003	
	Units	Percentage Weight	Units	Percentage Weight
USD	0.5770	44.3	0.5770	41.1
EUR	0.4260	30.4	0.4260	34.8
JPY	21.000	14.0	21.000	12.5
GBP	0.0984	11.3	0.0984	11.6
<b>Total</b>		<b>100.0</b>		<b>100.0</b>

24. As of 30 June 2003, assets in the form of cash, investments, promissory notes and amounts receivable from contributors under the Fourth, Fifth and Sixth Replenishments amounted to USD 2 500 547 000 equivalent (31 December 2002 – USD 2 392 210 000 equivalent), as indicated in Table 8.

**Table 8: Currency Composition of Assets at 30 June 2003**  
(USD '000 equivalent)

Currency Group	Cash and Investments	Promissory Notes	Amounts Receivable from Contributors	Total
USD	961 269	48 224	22 441	1 031 934
EUR	555 902	72 769	27 578	656 249
JPY	315 131	13 661	-	328 792
GBP	282 187	16 595	30 579	329 361
Other	95 482	48 745	9 984	154 211
<b>Total</b>	<b>2 209 971</b>	<b>199 994</b>	<b>90 582</b>	<b>2 500 547</b>

25. Holdings of assets denominated in currencies not included in the SDR valuation basket amounted to USD 154 211 000 equivalent at 30 June 2003 (31 December 2002 – USD 169 996 000 equivalent). These are allocated to currency groups, as indicated in Table 9.

**Table 9: Allocation of Assets to Currency Groups at 30 June 2003**  
(USD '000 equivalent)

Currency Group	Currencies Included in SDR Basket	European Currencies Not Included in SDR Valuation Basket	Other Currencies not Included in SDR Valuation Basket	Non-Convertible Currencies	Total Currencies Per Group
USD	1 031 934		54 259	2 140	1 088 333
EUR	656 249	97 812	-	-	754 061
JPY	328 792	-	-	-	328 792
GBP	329 361	-	-	-	329 361
<b>Total</b>	<b>2 346 336</b>	<b>97 812</b>	<b>54 259</b>	<b>2 140</b>	<b>2 500 547</b>

26. The alignment of assets by currency group against the SDR valuation basket at 30 June 2003 is shown in Table 10. The balance of the General Reserve at 30 June 2003 and the commitment for grants denominated in United States dollars on the same date amounted to USD 95 000 000 and USD 57 183 000 respectively.

**Table 10: Alignment of Assets per Currency Group with the Currency Composition of the SDR Valuation Basket at 30 June 2003**  
(USD '000 equivalent)

Currency Group	Amount per Currency Group	Less: Commitment Denominated in USD	Net Assets per Currency Group	Net Assets % 30.6.2003	Compare SDR Weights % 30.6.2003
USD	1 088 333	(152 183)	936 150	39.9	41.1
EUR	754 061	-	754 061	32.1	34.8
JPY	328 792	-	328 792	14.0	12.5
GBP	329 361	-	329 361	14.0	11.6
<b>Total</b>	<b>2 500 547</b>	<b>(152 183)</b>	<b>2 348 364</b>	<b>100.0</b>	<b>100.0</b>

27. As of 30 June 2003, there was a shortfall in euro currency-group holdings and also in United States dollar currency-group holdings. The shortfalls were offset by excess holdings of British pound sterling and, to a smaller extent, Japanese yen. The shortfalls in euro and United States dollar currency-group holdings largely reflected foreign exchange transactions effected just prior to quarter end in conjunction with the funding of the asset class of inflation-indexed bonds. The excess of British pound sterling reflected the fact that one of the new inflation-indexed investments is a pound-sterling-denominated investment. However, the excess of pound sterling was also a result of contribution receipts denominated in pound sterling.

28. The realignment of currency positions is being addressed in line with IFAD's policy and procedures for currency alignment.





## **REPORT ON IFAD'S INVESTMENT PORTFOLIO FOR THE FIRST QUARTER OF 2003**

### **I. INTRODUCTION**

1. The following report on IFAD's investment portfolio covers the three-month period ending 31 March 2003 and includes comparative figures for earlier years. The report comprises the following six sections: investment policy, asset allocation, investment income, rate of return and performance comparison, currency composition and risk measurement.

### **II. INVESTMENT POLICY**

2. IFAD's current investment policy was adopted in December 2001. The policy was fully implemented in 2002 with the exception of the asset class of inflation-indexed bonds. As of 31 March 2003, this asset class remained unfunded, with the unfunded amount being held mainly in cash and time-deposits in the internally managed portfolio and, to a lesser extent, in the government bonds portfolio.

### **III. ASSET ALLOCATION**

3. Table 1 shows the movements affecting the investment portfolio's major asset classes in the first quarter of 2003 and compares the portfolio's actual asset allocation to the policy allocation. During the first quarter of 2003, the main changes in the investment portfolio were due to overall positive movements in investment income and exchange movements. These movements increased the holdings of the government bonds portfolio and the diversified fixed-interest portfolio, while the amount of equity holdings decreased due to negative income on the equities portfolio. There was also a net outflow of USD 7 003 000 equivalent from the internally managed portfolio, representing disbursements for loans, grants and administrative expenses, less cash receipts and encashments of Member States' contributions. At 31 March 2003, the portfolio showed excess allocations to the internally managed and government bonds portfolios, reflecting mainly the fact that the asset class of inflation-indexed bonds was still unfunded, as described in the previous paragraph.

**Table 1: Summary of Movements in Cash and Investment –  
First Quarter of 2003**  
(USD '000 equivalent)

	<b>Internally Managed Portfolio</b>	<b>Government Bonds Portfolio</b>	<b>Inflation- Indexed Bonds Portfolio</b>	<b>Diversified Fixed- Interest Portfolio<sup>a</sup></b>	<b>Equities Portfolio</b>	<b>Overall Portfolio</b>
<b>Opening balance (31 December 2002)</b>	<b>408 137</b>	<b>1 022 378</b>	-	<b>464 218</b>	<b>199 260</b>	<b>2 093 993</b>
Net investment income (loss)	1 260	13 871	-	5 470	(12 307)	8 294
Transfers due to allocation <sup>b</sup>	627	-	-	-	(627)	-
Transfers due to expenses	(1 623)	1 058	-	317	248	-
Other net outflows <sup>c</sup>	(7 003)	-	-	-	-	(7 003)
Movements on exchange	3 101	15 607	-	(52)	1 475	20 131
<b>Closing balance (31 March 2003)</b>	<b>404 499</b>	<b>1 052 914</b>	-	<b>469 953</b>	<b>188 049</b>	<b>2 115 415</b>
Actual allocation (%)	19.1	49.8	-	22.2	8.9	100.0
Policy allocation (%)	5.0	44.0	18.0	23.0	10.0	100.0
<b>Difference in allocation (%)</b>	<b>14.1</b>	<b>5.8</b>	<b>(18.0)</b>	<b>(0.8)</b>	<b>(1.1)</b>	<b>-</b>

<sup>a</sup> The policy allocation has an allocation of 18% to inflation-indexed bonds. The asset class was unfunded as of 31 March 2003.

<sup>b</sup> Transfers from the equities portfolio reflect the repatriation of dividends.

<sup>c</sup> These net outflows consist of Member States' contributions, less disbursements for loans, grants and administrative expenses.

#### IV. INVESTMENT INCOME

4. Market conditions during the first quarter of 2003 were driven by the risk of, and later in the quarter, commencement of, war in Iraq and also the remaining uncertainty about the global economy. Investors favoured government bonds as a safe haven, while equity markets also suffered from a fall in consumer confidence and from weak corporate earnings forecasts.

5. Table 2 shows net investment income for the first quarter of 2003 and for earlier years for the investment portfolio's major asset classes. Aggregate net investment income in the first quarter of 2003 amounted to USD 8 294 000 equivalent (2002 – USD 26 170 000 equivalent). In line with market practice, capital gains and losses include both realized and unrealized gains and losses and all amounts are included on an accrual basis.

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

<b>Portfolio</b>	<b>First Quarter 2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>
Internally managed portfolio	1 260	4 082	2 050	3 654	3 114	4 834	18 633
Government bonds portfolio	13 871	85 541	41 471	74 625	(43 977)	195 506	154 228
Inflation-indexed bonds portfolio	-	-	-	-	-	-	-
Diversified fixed-interest portfolio	5 470	22 925	13 783	17 615	3 832	6 130	-
Equities portfolio	(12 307)	(86 378)	(100 286)	(143 744)	231 500	(18 571)	(8 921)
<b>Overall portfolio</b>	<b>8 294</b>	<b>26 170</b>	<b>(42 982)</b>	<b>(47 850)</b>	<b>194 469</b>	<b>187 899</b>	<b>163 940</b>

6. Table 3 provides details of net investment income earned during the first quarter of 2003 for the overall portfolio and for the portfolio's fixed-interest and equities portfolios respectively.

**Table 3: Investment Income on the Overall Portfolio –  
First Quarter of 2003  
(USD '000 equivalent)**

	Fixed-Interest Portfolio	Equities Portfolio	Overall Portfolio
Interest from fixed-interest investments and bank accounts	15 659	-	15 659
Dividend income from equities	-	1 021	1 021
Realized capital gains/(losses)	13 555	(2 318)	11 237
Unrealized capital gains/(losses)	(7 174)	(10 730)	(17 904)
<b>Subtotal: Gross investment income (loss)</b>	<b>22 040</b>	<b>(12 027)</b>	<b>10 013</b>
Income from securities lending and commission recapture	18	5	23
Investment manager fees	(1 045)	(222)	(1 267)
Custody fees	(206)	(40)	(246)
Financial advisory and other investment management fees	(172)	(23)	(195)
Taxes	-	(1)	(1)
Other investment expenses	(34)	1	(33)
<b>Net investment income (loss)</b>	<b>20 601</b>	<b>(12 307)</b>	<b>8 294</b>

7. Table 4 shows net investment income for the fixed-interest portfolio sections in the first quarter of 2003. In aggregate, net income from fixed-interest investments amounted to USD 20 601 000 equivalent. All sections of the fixed-interest portfolio, and especially the government bonds portfolio, contributed positively to income.

**Table 4: Investment Income on the Fixed-Interest Portfolio –  
First Quarter of 2003  
(USD '000 equivalent)**

	Internally Managed Portfolio	Government Bonds Portfolio	Diversified Fixed-Interest Portfolio	Total Fixed-Interest Portfolio
Interest from fixed-interest investments and bank accounts	1 290	11 954	2 415	15 659
Dividend income from equities	-	-	-	-
Realized capital gains	-	7 028	6 527	13 555
Unrealized capital gains/(losses)	-	(4 045)	(3 129)	(7 174)
<b>Subtotal: Gross investment income (loss)</b>	<b>1 290</b>	<b>14 937</b>	<b>5 813</b>	<b>22 040</b>
Income from securities lending and commission recapture	-	16	2	18
Investment manager fees	-	(844)	(201)	(1 045)
Custody fees	(30)	(112)	(64)	(206)
Financial advisory and other investment management fees	-	(118)	(54)	(172)
Taxes	-	-	-	-
Other investment expenses	-	(8)	(26)	(34)
<b>Net investment income (loss)</b>	<b>1 260</b>	<b>13 871</b>	<b>5 470</b>	<b>20 601</b>

8. In aggregate, net losses from the equities portfolio in the first quarter of 2003 amounted to USD 12 307 000 equivalent, as shown in Table 5 by sub-portfolio. The portfolio consisted of two sub-portfolios, North American and European equities, and both contributed negatively to income during the period.

**Table 5: Investment Income on the Equities Portfolio –  
First Quarter of 2003**  
(USD '000 equivalent)

	<b>Emerging Markets Equities<sup>a</sup></b>	<b>North American Equities</b>	<b>European Equities</b>	<b>Total Equities Portfolio</b>
Interest from fixed-interest investments and bank accounts	-	-	-	-
Dividend income from equities	-	505	516	1 021
Realized capital gains/(losses)	7	(1 061)	(1 264)	(2 318)
Unrealized capital gains/(losses)	-	(3 101)	(7 629)	(10 730)
<b>Subtotal: Gross investment income (loss)</b>	<b>7</b>	<b>(3 657)</b>	<b>(8 377)</b>	<b>(12 027)</b>
Income from securities lending and commission recapture	-	-	5	5
Investment manager fees	-	(151)	(71)	(222)
Custody fees	(3)	(22)	(15)	(40)
Financial advisory and other investment management fees	-	(14)	(9)	(23)
Taxes	-	-	(1)	(1)
Other investment expenses	1	-	-	1
<b>Net investment income (loss)</b>	<b>5</b>	<b>(3 844)</b>	<b>(8 468)</b>	<b>(12 307)</b>

a The portfolio was liquidated in October 2002. Income and expenses for the first quarter of 2003 refer to transactions that could not be effected in 2002.

#### V. RATE OF RETURN AND PERFORMANCE COMPARISON

9. The overall portfolio returned a positive 0.40% in the first quarter of 2003, net of investment expenses and movements on exchange.

10. The performance of the various sections 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.

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 11 basis points in the first quarter of 2003, with both fixed-interest and equities investments contributing to the outperformance.

**Table 6: Performance Compared with Benchmarks**

Portfolio	First Quarter of 2003		
	Return %		Out (Under) performance
	Portfolio	Benchmark	
Internally managed portfolio	0.33	0.33	0.00
Government bonds portfolio	1.46	1.40	0.06
Diversified fixed-interest portfolio	1.25	1.10	0.15
<b>Total fixed-interest portfolio</b>	<b>1.17</b>	<b>1.10</b>	<b>0.07</b>
North American equities portfolio	(3.01)	(3.59)	0.58
European equities portfolio	(10.77)	(11.15)	0.38
<b>Total equities portfolio</b>	<b>(5.72)</b>	<b>(6.20)</b>	<b>0.48</b>
<b>Overall portfolio gross rate of return</b>	<b>0.48</b>	<b>0.37</b>	<b>0.11</b>
<b>Less expenses</b>	<b>(0.08)</b>	<b>(0.08)</b>	<b>0.00</b>
<b>Overall portfolio net rate of return</b>	<b>0.40</b>	<b>0.29</b>	<b>0.11</b>

12. The total fixed-interest portfolio returned a positive 1.17% in the first quarter of 2003 and outperformed its aggregate benchmark by 7 basis points. Within the fixed-interest portfolio, the government bonds portfolio also slightly outperformed its benchmark. The diversified fixed-interest bonds portfolio outperformed, mainly due to security selection among United States government and agency bonds.

13. The total equities portfolio returned a negative –5.72 % in the first quarter of 2003 despite the portfolio’s outperformance of 48 basis points against its aggregate benchmark. Both North American and European equities contributed to the outperformance. The North American equities portfolio benefited from its sector allocation, and particularly from its moderate overweight in the health sector, which was the only North American industry to perform positively in the first quarter. The European equities portfolio gained on its stock selection in several countries.

## VI. CURRENCY COMPOSITION

14. 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 SDR 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.

15. The Executive Board of the International Monetary Fund 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.

16. 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 2001 and 31 March 2003, are shown in Table 7.

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

Currency	1 January 2001		31 March 2003	
	Units	Percentage Weight	Units	Percentage Weight
USD	0.5770	44.3	0.5770	42.1
EUR	0.4260	30.4	0.4260	33.8
JPY	21.000	14.0	21.000	12.8
GBP	0.0984	11.3	0.0984	11.3
<b>Total</b>		<b>100.0</b>		<b>100.0</b>

17. As of 31 March 2003, assets in the form of cash, investments, promissory notes and amounts receivable from contributors under the Fourth and Fifth Replenishments amounted to USD 2 407 369 000 equivalent (31 December 2002 – USD 2 392 210 000 equivalent), as indicated in Table 8.

**Table 8: Currency Composition of Assets at 31 March 2003**  
(USD '000 equivalent)

Currency Group	Cash and Investments	Promissory Notes	Amounts Receivable from Contributors	Total
USD	969 052	50 020	37 340	1 056 412
EUR	574 221	77 611	25 312	677 144
JPY	270 410	286	13 367	284 063
GBP	207 594	15 887	-	223 481
Other	94 138	54 306	17 825	166 269
<b>Total</b>	<b>2 115 415</b>	<b>198 110</b>	<b>93 844</b>	<b>2 407 369</b>

18. Holdings of assets denominated in currencies not included in the SDR valuation basket amounted to USD 166 269 000 equivalent at 31 March 2003 (31 December 2002 – USD 169 996 000 equivalent). These are allocated to currency groups, as indicated in Table 9.

**Table 9: Allocation of Assets to Currency Groups at 31 March 2003**  
(USD '000 equivalent)

Currency Group	Currencies Included in SDR Basket	European Currencies Not Included in SDR Valuation Basket	Other Currencies Not Included in SDR Valuation Basket	Non-Convertible Currencies	Total Currencies per Group
USD	1 056 412	-	58 465	2 140	1 117 017
EUR	677 144	105 664	-	-	782 808
JPY	284 063	-	-	-	284 063
GBP	223 481	-	-	-	223 481
<b>Total</b>	<b>2 241 100</b>	<b>105 664</b>	<b>58 465</b>	<b>2 140</b>	<b>2 407 369</b>

19. The alignment of assets by currency group against the SDR valuation basket at 31 March 2003 is shown in Table 10. The balance of the General Reserve at 31 March 2003 and the commitment for grants denominated in United States dollars on the same date amounted to USD 95 000 000 and USD 48 522 000 respectively.

ANNEX

**Table 10: Alignment of Assets per Currency Group with the Currency Composition of the SDR Valuation Basket at 31 March 2003**  
(USD '000 equivalent)

Currency Group	Amount per Currency Group	Less: Commitment Denominated in USD	Net Assets per Currency Group	Net Assets % 31 March 2003	Compare SDR Weights % 31 March 2003
USD	1 117 017	(143 522)	973 495	43.0	42.1
EUR	782 808	-	782 808	34.6	33.8
JPY	284 063	-	284 063	12.5	12.8
GBP	223 481	-	223 481	9.9	11.3
<b>Total</b>	<b>2 407 369</b>	<b>(143 522)</b>	<b>2 263 847</b>	<b>100.0</b>	<b>100.0</b>

20. As of 31 March 2003, there was a moderate excess of currency group holdings of euro and United States dollars. This was offset by a shortfall in holdings of British pound sterling and, to a small extent, Japanese yen.

### VII. RISK MEASUREMENT

21. 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.

22. At 31 March 2003, the standard deviation of IFAD's policy allocation according to the current investment policy was 2.9%, compared to 2.1% for the actual portfolio, based on five years of historical monthly data.

23. 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 allocation and current policy allocation, based on five years of historical monthly data. At 31 March 2003, the VaR of the actual portfolio was slightly lower than at 31 December 2002. The VaR of the actual portfolio remained significantly lower than the policy VaR due to the portfolio's currently high amount of cash and time-deposit holdings pending further investment in fixed-interest instruments.

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

Date	Portfolio		Policy <sup>a</sup>	
	VaR %	Amount USD '000	VaR %	Amount USD '000
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

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