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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Executive Board – Eighty-Second Session

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REPORT ON IFAD'S INVESTMENT PORTFOLIO FOR THE SECOND QUARTER OF 2004

I. INTRODUCTION

1. The following report on IFAD's investment portfolio covers the three-month period ending 30 June 2004 and consists of five sections: investment policy, asset allocation, investment income, rate of return and performance comparison, and sector allocation of the equities portfolio. Information on the period's performance attribution, currency composition and risk measurement will become available by the end of July 2004 and will therefore be included as an annex to the report on the third quarter of 2004.

2. Furthermore, the Annex contains additional information on the investment portfolio for the first quarter of 2004. As indicated in the report on the first quarter of 2004, the here presented additional information became available after the Executive Board's Eighty-First Session on 21-22 April 2004.

II. INVESTMENT POLICY

3. Two external investment managers were selected in March 2004 for the management of the remaining, unfunded portion of inflation-indexed bonds. The managers were funded on 1 June 2004 in the total amount of USD 180 000 000 equivalent, thereby bringing the portfolio's allocation to inflation-indexed bonds closely in line with their 18% allocation in the investment policy.

4. Furthermore, the duration of the inflation-indexed bonds portfolio was shortened, as decided in March 2004, at the time of its additional funding on 1 June 2004. The shorter duration will reduce exposure to losses in the event of rising interest rates on inflation-indexed bonds.

5. In the second quarter of 2004, interest rates generally rose, thereby causing losses in particular on bonds with a long duration. During this quarter, the possible losses on IFAD's government bonds portfolio were reduced by approximately USD 7.8 million compared with if the portfolio's earlier, longer duration (until 30 September 2003) had been maintained during the quarter. Cumulatively, the shortened government bonds duration has benefited IFAD by approximately USD 1.5 million year-to-date 2004 and approximately USD 4.1 million since the end of September 2003.

III. ASSET ALLOCATION

6. Table 1 shows the movements affecting the investment portfolio's major asset classes in the second quarter of 2004 and compares the portfolio's actual asset allocation to the policy allocation. During the quarter, the funding of the inflation-indexed bonds portfolio of USD 180 000 000 equivalent was completed with USD 130 000 000 equivalent being transferred from the government bonds portfolio and USD 50 000 000 equivalent being transferred from the internally managed portfolio. Additionally, there was the normal dividend repatriation from the equities portfolio to the internally managed portfolio, whereby IFAD avoids reinvesting its dividend gains into equities. During the second quarter of 2004, there was also a net outflow of USD 23 276 000 equivalent from the internally managed portfolio, representing disbursements for loans, grants and administrative expenses, less cash receipts and encashments of Member States' contributions.

Table 1: Summary of Movements in Cash and Investments – Second Quarter of 2004
(USD '000 equivalent)

	Internally Managed Portfolio	Government Bonds Portfolio	Diversified Fixed-Interest Portfolio	Inflation-Indexed Bonds Portfolio	Equities Portfolio	Overall Portfolio
Opening balance (31 March 2004)	**163 773**	**1 206 405**	**492 996**	**257 165**	**256 642**	**2 376 981**
Net investment income/(loss)	528	(10 800)	(8 959)	482	4 331	(14 418)
Transfers due to allocation[a]	(48 041)	(130 000)	-	180 000	(1 959)	-
Transfers due to expenses/other income	(1 456)	596	256	195	409	-
Other net flows[b]	(23 276)	-	-	-	-	(23 276)
Movements on exchange	(2 003)	(15 560)	(40)	(10 735)	(834)	(29 172)
Closing balance (30 June 2004)	**89 525**	**1 050 641**	**484 253**	**427 107**	**258 589**	**2 310 115**
Actual allocation (%)	3.9	45.5	20.9	18.5	11.2	100.0
Policy allocation (%)	5.0	44.0	23.0	18.0	10.0	100.0
Difference in allocation (%)	**(1.1)**	**1.5**	**(2.1)**	**0.5**	**1.2**	**-**

[a] Transfers from the equity portfolio reflect the repatriation of dividends.
[b] Disbursements for loans, grants and administrative expenses, less cash receipts and encashments of Member States' contributions.

7. Changes in portfolio allocation ratios during the second quarter of 2004 also reflected negative movements in net investment income in the government bonds and diversified fixed-interest portfolios. Negative foreign exchange movements also had an impact, mainly in the government bonds and inflation-indexed bonds portfolios, as other major currencies depreciated somewhat against the United States dollar.

8. As a result of the transfers and movements in the second quarter of 2004, the portfolio became more in line with its policy allocation. Some excess allocation was shown by the government bonds portfolio, the inflation indexed bonds portfolio and also the equities portfolio. The excess allocations were offset by some shortfalls in the allocations of the internally managed portfolio and the diversified fixed-interest portfolio.

IV. INVESTMENT INCOME

9. In the second quarter of 2004, fixed-interest markets generally performed negatively as interest rates rose following stronger economic data and signs of a pick-up in inflation. Inflation-indexed bonds performed better as investors looked for inflation protection. Equity investments continued to perform positively due to the economic growth, although equity investors were also cautious due to signs of inflation and therefore expectations of rising interest rates that would affect borrowing costs and consequently hurt corporate earnings.

10. Table 2 shows net investment income for the second quarter of 2004, year-to-date 2004 and earlier years for the investment portfolio's major asset classes. Aggregate net investment loss in the second quarter of 2004 amounted to USD 14 418 000 equivalent, which, added to the net investment income of USD 41 095 000 equivalent for the first three months of 2004, resulted in a cumulative net investment income of USD 26 677 000 equivalent for the first six months of 2004 (while the first six months of 2003 resulted in USD 74 496 000 equivalent).

Table 2: Net Investment Income by Asset Class – Second Quarter 2004 and Prior Periods[a]
(USD '000 equivalent)

Portfolio	Second Quarter 2004	First Quarter 2004	Year-to-Date 2004	2003	2002	2001	2000	1999	1998	1997
Internally managed portfolio	528	621	1 149	4 086	4 098	2 050	3 654	3 114	4 834	18 633
Government bonds portfolio	(10 800)	20 197	9 397	36 735	85 541	41 471	74 625	(43 977)	195 506	154 228
Diversified fixed-interest portfolio	(8 959)	11 912	2 953	16 038	22 925	13 783	17 615	3 832	6 130	-
Inflation-indexed bonds portfolio	482	6 534	7 016	4 665	-	-	-	-	-	-
Equities portfolio	4 331	1 831	6 162	46 438	(86 378)	(100 286)	(143 744)	231 500	(18 571)	(8 921)
Overall portfolio	**(14 418)**	**41 095**	**26 677**	**107 962**	**26 186**	**(42 982)**	**(47 850)**	**194 469**	**187 899**	**163 940**

[a] Net investment income earned in prior years (1997 to 2001) reflects the previous investment policy.

11. Table 3 provides details on the aggregate net investment income in the second quarter of 2004 by the two main portfolio categories, i.e. fixed-interest and equity investments. The period's loss on investments stemmed from the fixed-interest portfolio but was partially offset by gains in the equities portfolio.

Table 3: Net Investment Income of the Overall Portfolio by Main Portfolio Category – Second Quarter of 2004
(USD '000 equivalent)

	Total Fixed-Interest Portfolio	**Total Equities Portfolio**	**Overall Portfolio**
Interest from fixed-interest investments and bank accounts	19 224	5	19 229
Dividend income from equities	-	2 125	2 125
Realized capital gains/(losses)	(9 782)	2 385	(7 397)
Unrealized capital gains/(losses)	(27 122)	225	(26 897)
Income from securities lending and commission recapture	129	41	170
Subtotal: gross investment income/(loss)	**(17 551)**	**4 781**	**(12 770)**
Investment manager fees	(873)	(249)	(1 122)
Custody fees	(121)	(27)	(148)
Financial advisory and other investment management fees	(204)	(26)	(230)
Taxes	-	(148)	(148)
Net investment income/(loss)	**(18 749)**	**4 331**	**(14 418)**

12. Table 4 shows the net investment loss in the second quarter of 2004 from the fixed-interest portfolio's four sub-portfolios. In aggregate, net investment loss from fixed-interest investments amounted to USD 18 749 000 equivalent. Both the government bonds portfolio and the diversified fixed-interest portfolio contributed negatively, while the internally managed portfolio and the inflation-indexed portfolio had a slight positive contribution.

Table 4: Net Investment Income of the Fixed-Interest Portfolio by Sub-Portfolio – Second Quarter of 2004
(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	550	11 882	3 420	3 372	19 224
Dividend income from equities	-	-	-	-	-
Realized capital gains/(losses)	-	(3 709)	(6 463)	390	(9 782)
Unrealized capital (losses)	-	(18 377)	(5 660)	(3 085)	(27 122)
Income from securities lending and commission recapture	-	90	32	7	129
Subtotal: gross investment income/(loss)	**550**	**(10 114)**	**(8 671)**	**684**	**(17 551)**
Investment manager fees	-	(520)	(210)	(143)	(873)
Custody fees	(22)	(40)	(27)	(32)	(121)
Financial advisory and other investment management fees	-	(126)	(51)	(27)	(204)
Taxes	-	-	-	-	-
Net investment income/(loss)	**528**	**(10 800)**	**(8 959)**	**482**	**(18 749)**

13. Net investment income in the second quarter of 2004 from the two sub-portfolios of the equities portfolio is shown in Table 5. In aggregate, net investment income from equities amounted to USD 4 331 000 equivalent. Both the North American and the European equities sub-portfolios contributed positively to income during the period.

Table 5: Net Investment Income of the Equities Portfolio by Sub-Portfolio – Second Quarter of 2004
(USD ’000 equivalent)

	North American Equities	European Equities	Total Equities Portfolio
Interest from fixed-interest investments and bank accounts	4	1	5
Dividend income from equities	610	1 515	2 125
Realized capital gains	2 295	90	2 385
Unrealized capital gains/(losses)	(686)	911	225
Income from securities lending and commission recapture	14	27	41
Subtotal: gross investment income	**2 237**	**2 544**	**4 781**
Investment manager fees	(201)	(48)	(249)
Custody fees	(19)	(8)	(27)
Financial advisory and other investment management fees	(16)	(10)	(26)
Taxes	-	(148)	(148)
Net investment income	**2 001**	**2 330**	**4 331**

V. RATE OF RETURN AND PERFORMANCE COMPARISON

14. There was an overall negative return of 0.54% in the second quarter of 2004, net of investment expenses and movements on exchange. Cumulatively, the overall return for the first six months of 2004 was 1.19% (non-annualized return).

15. The performance is measured against pre-assigned 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 customized global government bonds index for government bonds, Lehman Brothers United States aggregate index for diversified fixed-interest bonds, Barclay customized inflation-indexed index for the inflation-indexed bonds portfolio, Standard & Poor 500 index for North American equities and Morgan Stanley capitalization index (MSCI) for European equities.

16. Table 6 compares the return on each major sub-portfolio with the appropriate benchmark return. The overall portfolio showed an outperformance of 25 basis points in the second quarter of 2004, as both fixed-interest and equities investments showed an outperformance relative to their benchmarks.

Table 6: Performance Compared with Benchmarks – Second Quarter of 2004
(percentage in local currency terms)

	Second Quarter 2004			**Year-to-Date 2004**		
	Rate of Return %		**Out/(Under)**	**Rate of Return %**		**Out/(Under)**
Portfolio	**Portfolio**	**Benchmark**	**Performance**	**Portfolio**	**Benchmark**	**Performance**
Internally managed portfolio	0.49	0.49	0.00	0.86	0.86	0.00
Government bonds portfolio	(0.77)	(0.96)	0.19	0.96	0.86	0.10
Diversified fixed-interest portfolio	(1.76)	(2.15)	0.39	0.72	0.26	0.46
Inflation-indexed bonds portfolio	0.00	(0.35)	0.35	2.75	2.69	0.06
Total fixed-interest portfolio	**(0.80)**	**(1.02)**	**0.22**	**1.11**	**0.96**	**0.15**
North American equities portfolio	1.42	1.31	0.11	2.60	2.61	(0.01)
European equities portfolio	2.72	1.81	0.91	3.04	2.89	0.15
Total equities portfolio	**1.93**	**1.52**	**0.41**	**2.78**	**2.73**	**0.05**
Overall portfolio gross rate of return	**(0.50)**	**(0.75)**	**0.25**	**1.29**	**1.14**	**0.15**
Less expenses	**(0.04)**	**(0.04)**	**(0.00)**	**(0.10)**	**(0.10)**	**0.00**
Overall portfolio net rate of return	**(0.54)**	**(0.79)**	**0.25**	**1.19**	**1.04**	**0.15**

17. The total fixed-interest portfolio returned a negative 0.80% in the second quarter of 2004 but outperformed its aggregate benchmark by 22 basis points. The outperformance stemmed from all three externally managed sub-portfolios of the fixed-interest portfolio, i.e. government bonds, diversified fixed-interest and inflation-indexed bonds.

18. The total equities portfolio returned a positive 1.93% in the second quarter of 2004 and outperformed its benchmark by 41 basis points. The outperformance was largely due to the European equities portfolio.

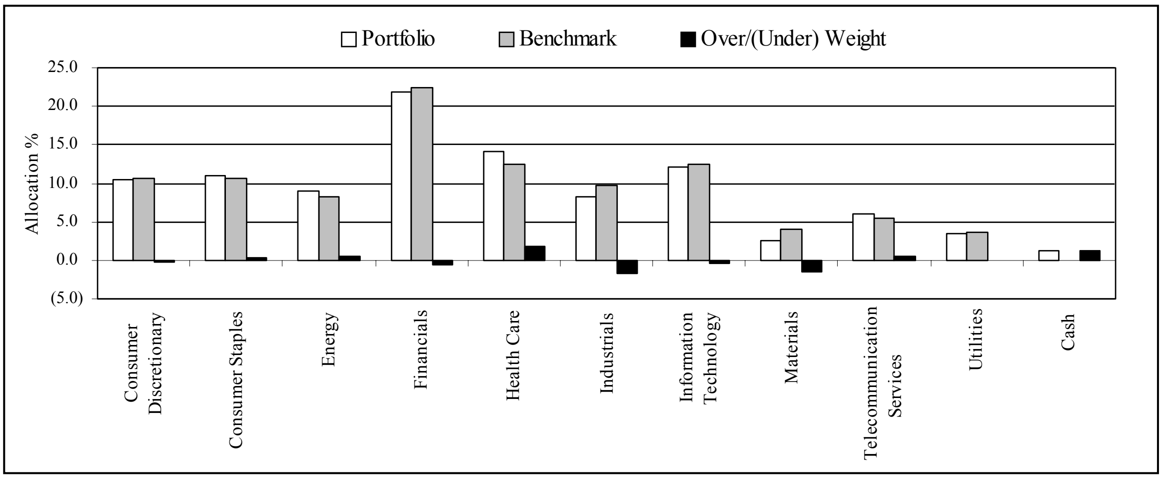
19. Information on the second quarter's performance attribution will become available by the end of July 2004 and will therefore be included as an annex to the report on the third quarter of 2004.

VI. SECTOR ALLOCATION OF THE EQUITIES PORTFOLIO

20. The Figure below shows the sector allocation by industry of the total equities portfolio at 30 June 2004 and also compares this allocation to the sector allocation of the aggregate benchmark. The sectors refer to sector classifications applied by the portfolio's two benchmark indexes, i.e. Standard & Poor's 500 for North American equities and MSCI for European equities.

21. As illustrated in the Figure below, the three major sectors of the total equities portfolio and its aggregate benchmark were financials, health care and information technology, which together constituted approximately half of both the portfolio and its aggregate benchmark. Other major sectors were consumer discretionary and consumer staples. At 30 June 2004, the overall equities portfolio did not show significant over- or underweights relative to the aggregate benchmark; the biggest sector deviation was a 1.8% overweight in the health care sector, which was offset by underweights mainly in industrials (-1.6%) and materials (-1.5%).

Figure: Sector Allocation of the Total Equities Portfolio at 30 June 2004



22. Table 7 shows the sector allocation of the two sub-portfolios, i.e. North American and European equities, and also compares these to the sector allocations of their respective benchmarks.

Table 7: Sector Allocation of the Equities Portfolio by Sub-Portfolio at 30 June 2004
(percentage)

Industry Sector	North American Equities			European Equities			Total Equities Portfolio		
	Portfolio	Benchmark	Over/(Under) Weight	Portfolio	Benchmark	Over/(Under) Weight	Portfolio	Benchmark	Over/(Under) Weight
Consumer discretionary	9.6	10.7	(1.1)	11.6	10.7	0.9	10.4	10.7	(0.3)
Consumer staples	10.1	11.2	(1.1)	12.6	9.8	2.8	11.1	10.7	0.4
Energy	5.9	6.5	(0.6)	13.7	11.3	2.4	8.9	8.3	0.6
Financials	20.5	19.9	0.6	24.2	26.8	(2.6)	21.9	22.5	(0.6)
Health care	15.0	13.7	1.3	13.0	10.3	2.7	14.2	12.4	1.8
Industrials	10.0	11.3	(1.3)	5.3	7.4	(2.1)	8.2	9.8	(1.6)
Information technology	17.4	17.4	0.0	3.6	4.6	(1.0)	12.1	12.5	(0.4)
Materials	2.6	3.0	(0.4)	2.3	5.5	(3.2)	2.5	4.0	(1.5)
Telecommunication services	3.9	3.5	0.4	9.3	8.7	0.6	6.0	5.5	0.5
Utilities	3.5	2.8	0.7	3.6	4.9	(1.3)	3.5	3.6	(0.1)
Cash	1.5	0.0	1.5	0.8	0.0	0.8	1.2	0.0	1.2
Total	**100.0**	**100.0**	–	**100.0**	**100.0**	–	**100.0**	**100.0**	–

23. The North American equities portfolio remained largely sector-neutral at 30 June 2004. The main overweights were in cash (+1.5%) and health care (+1.3%), while the main underweight was in industrials (-1.3%).

24. The European equities portfolio showed slightly bigger sector deviations at 30 June 2004 than at previous quarter end. The main overweights were in health care (+2.7%) and consumer staples (+2.8%), which were offset by underweights mainly in materials (-3.2%) and financials (-2.6%).

25. The eventual performance impact of sector allocations at 30 June 2004 will be discussed in conjunction with the quarter's performance attribution, which will be included as an annex to the report on the third quarter of 2004.

ANNEX

ADDITIONAL INFORMATION ON IFAD'S INVESTMENT PORTFOLIO FOR THE FIRST QUARTER OF 2004

I. INTRODUCTION

1. The present annex provides the following additional information on IFAD's investment portfolio for the first quarter of 2004: performance attribution, sector allocation of the equities portfolio, currency composition and risk measurement. The additional information became available after the report on the first quarter of 2004 had been presented to the Executive Board's Eighty-First Session on 21-22 April 2004.

II. PERFORMANCE ATTRIBUTION

2. As noted in the report on the first quarter of 2004, there was an overall positive return of 1.75%, net of investment expenses and movements on exchange.

3. The performance is measured against pre-assigned 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 customized global government bonds index for government bonds, Lehman Brothers United States aggregate index for diversified fixed-interest bonds, Barclay customized inflation-indexed index for the inflation-indexed bonds portfolio, Standard & Poor 500 index for North American equities and Morgan Stanley capitalization index for European equities.

4. Table 1 compares the return on each major sub-portfolio with the appropriate benchmark return. The overall portfolio showed a small underperformance of ten basis points in the first quarter of 2004, as both fixed-interest and equities investments showed some underperformance relative to their benchmarks.

Table 1: Performance Compared with Benchmarks – First Quarter 2004
(percentage in local currency terms)

	First Quarter 2004		
	Rate of Return %		Out/(Under) Performance
Portfolio	Portfolio	Benchmark	
Internally managed portfolio	0.36	0.36	0.00
Government bonds portfolio	1.74	1.83	(0.09)
Diversified fixed-interest portfolio	2.53	2.46	0.07
Inflation-indexed bonds portfolio	2.75	3.05	(0.30)
Total fixed-interest portfolio	**1.92**	**2.00**	**(0.08)**
North American equities portfolio	1.16	1.29	(0.13)
European equities portfolio	0.31	1.06	(0.75)
Total equities portfolio	**0.83**	**1.20**	**(0.37)**
Overall portfolio gross rate of return	**1.81**	**1.91**	**(0.10)**
Less expenses	**(0.05)**	**(0.05)**	**0.00**
Overall portfolio net rate of return	**1.75**	**1.85**	**(0.10)**

5. The total fixed-interest portfolio returned a positive 1.92% in the first quarter of 2004 but underperformed its aggregate benchmark slightly by eight basis points. The slight underperformance

was due to the government bonds and inflation-indexed bonds portfolios. The government bonds portfolio underperformed slightly mainly due to the fact that some external investment managers kept a somewhat shorter duration compared to benchmark. The shorter duration was not beneficial during the period, but would have contributed to protect the portfolio in the event of rising interest rates. The inflation-indexed portfolio underperformed mainly as a result of the external investment manager's low exposure to United States bonds due primarily to valuation considerations. The underperformance of government bonds and inflation-indexed bonds was partially offset by a small outperformance in the diversified fixed-interest portfolio.

6. The total equities portfolio returned a positive 0.83% in the first quarter of 2004 but underperformed its benchmark by 37 basis points. The underperformance was largely due to the European equities portfolio, where stock selection was weak in a number of sectors and sector allocation only had a minor, negative impact. Also the North American equities portfolio showed a small underperformance against benchmark, mainly due to some weaker stock selection in a number of sectors while sector allocation only had a minor, negative impact.

III. SECTOR ALLOCATION OF THE EQUITIES PORTFOLIO

7. The Figure below shows the sector allocation by industry of the total equities portfolio at 31 March 2004 and also compares this allocation to the sector allocation of the aggregate benchmark. The sectors refer to sector classifications applied by the portfolio's two benchmark indexes, i.e. Standard & Poor's 500 for North American equities and MSCI for European equities

8. As illustrated in the Figure, the three major sectors of the total equities portfolio and its aggregate benchmark were financials, health care and information technology, which together constituted approximately half of both the portfolio and its aggregate benchmark. Other major sectors were consumer discretionary and consumer staples. At 31 March 2004, the overall equities portfolio did not show significant over- or underweights relative to the aggregate benchmark; the biggest sector deviation was a 1.4% overweight in the health care sector.

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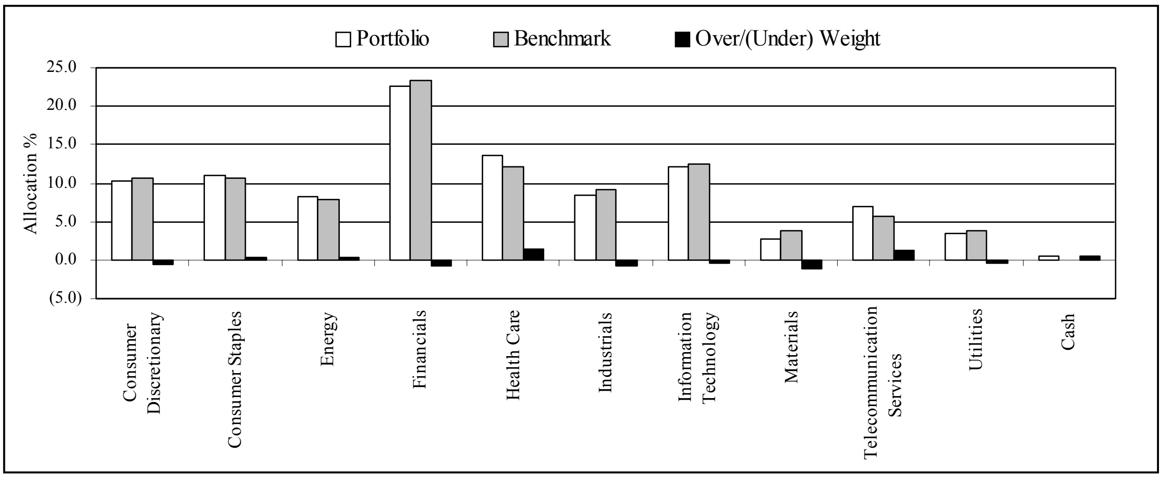
Figure: Sector Allocation of the Total Equities Portfolio at 31 March 2004



9. Table 2 shows the sector allocation of the two sub-portfolios, i.e. North American and European equities, and also compares these to the sector allocations of their respective benchmarks.

Table 2: Sector Allocation of the Equities Portfolio by Sub-Portfolio at 31 March 2004
(percentage)

Industry Sector	North American Equities			European Equities			Total Equities Portfolio		
	Portfolio	Benchmark	Over/(Under) Weight	Portfolio	Benchmark	Over/(Under) Weight	Portfolio	Benchmark	Over/(Under) Weight
Consumer discretionary	10.3	10.9	(0.6)	10.2	10.4	(0.2)	10.2	10.7	(0.5)
Consumer staples	10.7	11.4	(0.7)	11.4	9.6	1.8	11.0	10.7	0.3
Energy	5.5	6.1	(0.6)	12.8	10.9	1.9	8.3	7.9	0.4
Financials	21.4	21.1	0.3	24.6	27.2	(2.6)	22.6	23.4	(0.8)
Health care	14.9	13.3	1.6	11.4	10.3	1.1	13.6	12.2	1.4
Industrials	9.8	10.5	(0.7)	6.4	7.1	(0.7)	8.5	9.2	(0.7)
Information technology	16.7	17.1	(0.4)	4.8	5.2	(0.4)	12.1	12.5	(0.4)
Materials	2.6	3.0	(0.4)	3.0	5.4	(2.4)	2.8	3.9	(1.1)
Telecommunication services	4.2	3.6	0.6	11.2	9.0	2.2	6.9	5.7	1.2
Utilities	3.3	3.0	0.3	3.6	4.9	(1.3)	3.4	3.8	(0.4)
Cash	0.6	0.0	0.6	0.6	0.0	0.6	0.6	0.0	0.6
Total	**100.0**	**100.0**	**–**	**100.0**	**100.0**	**–**	**100.0**	**100.0**	**–**

10. The North American equities portfolio was largely sector-neutral at 31 March 2004. The single, main deviation from the benchmark was the overweight in health care (+1.6%). As noted in Section II of this annex, in the first quarter of 2004 there was only a minor, negative contribution from sector allocation.

11. The European equities portfolio was fairly sector-neutral in most sectors at 31 March 2004. The main overweights were in telecommunications (+2.2%), energy (+1.9%) and consumer staples (+1.8%), which were offset by underweights mainly in financials (-2.6%) and materials (-2.4%). As noted in Section II of this annex, the portfolio's sector allocations had only a minor negative contribution in the first quarter of 2004.

IV. Currency Composition

12. 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.

13. 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 of the basket.

14. New units for each of the four currencies constituting the valuation basket were determined on 29 December 2000 in such a way that the value of the SDR was precisely USD 1.30291 in terms of both the old and the new units, which became effective on 1 January 2001. The units applicable, together with their weights as of 1 January 2001 and 31 March 2004, are shown in Table 3.

Table 3: Units and Weights Applicable to the SDR Valuation Basket

	1 January 2001		31 March 2004	
Currency	**Units**	**Percentage Weight**	**Units**	**Percentage Weight**
USD	0.577	44.3	0.577	38.9
EUR	0.426	30.4	0.426	35.3
JPY	21.000	14.0	21.000	13.6
GBP	0.0984	11.3	0.0984	12.2
Total		**100.0**		**100.0**

15. As at 31 March 2004, assets in the form of cash, investments, promissory notes and amounts receivable from contributors under the Fourth, Fifth and Sixth Replenishments amounted to USD 2 943 083 000 equivalent, as indicated in Table 4 (compared with USD 2 817 778 000 equivalent at 31 December 2003).

Table 4: Currency Composition of Assets at 31 March 2004
(USD ’000 equivalent)

Currency Group	Cash and Investments[a]	Promissory Notes[a]	Amounts Receivable from Contributors	Total
USD	979 568	62 611	122 591	1 164 770
EUR	647 574	103 518	58 122	809 214
JPY	373 972	–	–	373 972
GBP	284 610	12 125	67 519	364 254
Other	90 472	61 867	78 534	230 873
Total	**2 376 196**	**240 121**	**326 766**	**2 943 083**

[a] Includes assets in freely convertible currencies. The excluded assets in non-convertible currencies amounted to USD 785 000 equivalent for cash and investments and USD 1 399 000 equivalent for promissory notes.

16. Holdings of assets denominated in currencies not included in the SDR valuation basket amounted to USD 230 873 000 equivalent at 31 March 2004 (compared with USD 255 486 000 equivalent at 31 December 2003). These are allocated to currency groups as indicated in Table 5.

Table 5: Allocation of Assets to Currency Groups at 31 March 2004
(USD ’000 equivalent)

Currency Group	Currencies Included in SDR Basket	European Currencies not Included in the SDR Valuation Basket	Other Currencies not Included in the SDR Valuation Basket	Total Currencies per Group
USD	1 164 770	–	69 433	1 234 203
EUR	809 214	161 440	–	970 654
JPY	373 972	–	–	373 972
GBP	364 254	–	–	364 254
Total	**2 712 210**	**161 440**	**69 433**	**2 943 083**

17. The alignment of assets by currency group against the SDR valuation basket at 31 March 2004 is shown in Table 6. The balance of the General Reserve at 31 March 2004 and the commitment for grants denominated in United States dollars on the same date amounted to USD 95 000 000 and USD 50 562 000 respectively.

Table 6: Alignment of Assets per Currency Group with the Currency Composition of the SDR Valuation Basket at 31 March 2004
(USD ’000 equivalent)

Currency Group	Amount per Currency Group	Less: Commitment Denominated in USD	Net Assets per Currency Group	Net Assets as a Percentage at 31 March 2004	Compare SDR Weights as a Percentage at 31 March 2004
USD	1 234 203	(145 562)	1 088 641	38.9	38.9
EUR	970 654	–	970 654	36.7	35.3
JPY	373 972	–	373 972	13.4	13.6
GBP	364 254	–	364 254	13.0	12.2
Total	**2 943 083**	**(145 562)**	**2 797 521**	**100.0**	**100.0**

18. At 31 March 2004, there were only small currency group deviations between IFAD’s net assets and the SDR valuation basket.

V. RISK MEASUREMENT

19. 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 deviation of returns from their mean. At 31 March 2004, the standard deviation of IFAD's investment portfolio was 2.0%, compared with 2.4% for the investment policy (as against 2.1% for the investment portfolio and 2.4% for the investment policy at 31 December 2003).

20. 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 7 shows the VaR of IFAD's investment portfolio and policy. At 31 March 2004, both the investment portfolio and the policy showed an unchanged VaR percentage compared to previous quarter-end, which indicates an unchanged risk in the first quarter of 2004 for both the portfolio and the policy.

Table 7: Value-at-Risk
(forecast horizon three months, confidence level 95%)

Date	Investment Portfolio[a]		Investment Policy[b]	
	VaR %	Amount USD '000	VaR %	Amount USD '000
31 March 2004	1.7	40 400	2.0	48 200
31 December 2003	1.7	40 800	2.0	46 700
30 September 2003	1.7	39 000	2.0	46 200
30 June 2003[c]	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

[a] The current investment policy was implemented in 2002, with the exception of the asset class of inflation-indexed bonds. Changes in VaR during 2002 reflect the gradual implementation of the current investment policy.
[b] The current investment policy is reflected in the policy VaR as of 31 March 2002, while 31 December 2001 still reflected the VaR of the previous investment policy.
[c] IFAD's transition to its new global custodian took place on 1 April 2003. Variations in VaR between 31 March 2003 and 30 June 2003 therefore reflect some differences in VaR methodologies used by the two different custodians providing risk measurement services on these dates.

21. As also indicated in Table 7, at 31 March 2004 the investment portfolio's VaR remained below the investment policy VaR of the same date, indicating that the portfolio had a lower risk than the policy. The portfolio's lower risk is partially explained by its somewhat higher cash allocation compared with the policy at 31 March 2004. In addition, all externally managed asset classes within the investment portfolio, i.e. government bonds, diversified fixed-interest, inflation-indexed bonds and equities, showed a similar or lower VaR than the policy. This indicated that in all asset classes, IFAD's external investment managers were taking similar or less risk than implied by their respective benchmark indexes.