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Enabling the rural poor  
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## **Report on IFAD's investment portfolio for the first two months of 2007**

Executive Board — Ninetieth Session  
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For: **Information**

## **Note to Executive Board Directors**

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# Report on IFAD's investment portfolio for the first two months of 2007

## I. Introduction

1. This report on IFAD's investment portfolio covers the first two months of 2007 and consists of four sections: asset allocation, investment income, rate of return and performance comparison, and liquidity level. Since the final data relating to March 2007 will only become available after finalization of this report, information on the entire first quarter of 2007 covering performance attribution, currency composition and risk measurement will be presented as an annex to the report on the second quarter of 2007.

## II. Asset allocation

2. Table 1 shows the movements affecting the investment portfolio's major asset classes during the first two months of 2007 and compares the portfolio's asset allocation with the investment policy allocation.
3. During the period, there was a net outflow of about US\$44,700,000 equivalent from the internally managed operational cash portfolio, representing disbursements for loans, grants and administrative expenses net of cash receipts and encashment of Member States' contributions.
4. In addition, US\$1,458,000 equivalent, representing coupon payments, was transferred from the held-to-maturity portfolio to the operational cash portfolio, as proceeds of coupon payments are not reinvested in the held-to-maturity portfolio.
5. Changes in the portfolio's allocation ratios also reflected positive net investment income of US\$18,518,000 equivalent and positive movements on foreign exchange of US\$1,117,000 equivalent as the United States dollar depreciated against major currencies.

Table 1  
**Movements in cash and investments by portfolio,  
first two months of 2007**

(Thousands of United States dollars equivalent)

	<i>Operational cash<sup>a</sup></i>	<i>Tactical short-term investments<sup>b</sup></i>	<i>Held-to-maturity</i>	<i>Government bonds</i>	<i>Diversified fixed-interest</i>	<i>Inflation-indexed bonds</i>	<i>Total</i>
Opening balance (31 December 2006) <sup>a</sup>	89 574	462 351	413 501	956 055	100 540	336 581	2 358 602
Net investment income/(loss)	861	3 946	2 494	6 983	1 221	3 013	18 518
Transfers due to allocation	3 108	(7)	(1 458)	-	(174)	(1 469)	-
Transfers due to expenses	(582)	32	30	330	46	144	-
Other net flows <sup>c</sup>	(44 700)	-	-	1	1	(1)	(44 699)
Movements on foreign exchange	138	70	306	922	(4)	(315)	1 117
Closing balance (28 February 2007)	48 399	466 392	414 873	964 291	101 630	337 953	2 333 538
Actual asset allocation	2.1%	20.0%	17.8%	41.3%	4.3%	14.5%	100.0%
Policy allocation	5.5%	-	-	49.0%	25.5%	20.0%	100.0%
Difference in asset allocation	(3.4%)	20.0%	17.8%	(7.7%)	(21.2%)	(5.5%)	-

<sup>a</sup> Cash and time deposits held with banks, readily available for disbursing loans, grants and administrative expenses.

<sup>b</sup> Short-term instruments (time deposits and commercial papers) maturing by July 2007.

<sup>c</sup> Disbursements for loans, grants and administrative expenses, net of cash receipts and encashment of Member States' contributions.

6. The tactical short-term investments will mature by July 2007 and will be reinvested in the most advantageous way based on the prevailing market conditions.

### III. Investment income

7. Fixed-interest markets made a relatively good start compared with their performance last year. Major central banks kept interest rates unchanged while inflation remained a primary concern, leading to a strong performance of the inflation-indexed bonds in February. Government bond markets also performed favourably, reflecting strong investor demands for quality and safe investments. As for credit products, corporate bonds performed well with favourable indicators on investment, production and retail business. In the currency market, the United States dollar continued to depreciate against the euro (-0.22 per cent), the British pound sterling (-0.25 per cent) and the Japanese yen (-0.43 per cent).
8. Table 2 provides details on net investment income for the first two months of 2007 by portfolio. The overall net investment income during the period amounted to US\$18,518,000 equivalent, to which all portfolios contributed positively.

Table 2

#### Net investment income by portfolio, first two months of 2007

(Thousands of United States dollars equivalent)

	<i>Operational cash</i>	<i>Tactical short-term investments</i>	<i>Held-to- maturity</i>	<i>Government bonds</i>	<i>Diversified fixed- interest</i>	<i>Inflation- indexed bonds</i>	<i>Total</i>
Interest from fixed-interest investments and bank accounts	563	1 791	2 718	6 410	781	1 726	13 989
Realized capital gains/(losses)	197	2 187	-	(3 918)	(203)	(524)	(2 261)
Unrealized capital gains	23	-	-	4 822	690	1 953	7 488
Amortization/accretion <sup>a</sup>	-	-	(194)	-	-	-	(194)
Income from securities lending	89	-	-	-	-	-	89
<b>Subtotal: gross investment income</b>	<b>872</b>	<b>3 978</b>	<b>2 524</b>	<b>7 314</b>	<b>1 268</b>	<b>3 155</b>	<b>19 111</b>
Investment manager fees	-	-	-	(258)	(37)	(115)	(410)
Custody fees	(14)	(4)	(5)	(15)	(4)	(7)	(49)
Financial advisory and other investment management fees	-	(28)	(25)	(58)	(6)	(20)	(137)
Tax recoverables	3	-	-	-	-	-	3
<b>Net investment income</b>	<b>861</b>	<b>3 946</b>	<b>2 494</b>	<b>6 983</b>	<b>1 221</b>	<b>3 013</b>	<b>18 518</b>

<sup>a</sup> A period's amortization amount represents a portion of the difference between the purchase price and the final redemption value of held-to-maturity investments as per the International Financial Reporting Standards.

### IV. Rate of return and performance comparison

9. Performance 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 customized global government bonds index for government bonds, the Lehman Brothers United States aggregate index for diversified fixed-interest bonds and the Barclay customized inflation-linked index for inflation-indexed bonds.
10. Table 3 compares the actual net return on the overall portfolio with the overall benchmark return. The portfolio returned 0.80 per cent during the first two months of 2007, net of investment expenses and excluding the impact of foreign exchange movements. This represented a very positive performance against the same two-month period of 2006, when the overall portfolio returned 0.29 per cent.

Table 3  
**IFAD investment portfolio performance compared with benchmarks,  
 first two months of 2007**

(Percentage in local currency terms)

<i>Portfolio</i>	<i>Rate of return</i>		<i>Out/(Under) performance</i>
	<i>Portfolio</i>	<i>Benchmark</i>	
Overall portfolio gross rate of return <sup>a</sup>	0.82	0.83	(0.01)
Less expenses	(0.02)	(0.02)	-
Overall portfolio net rate of return <sup>a</sup>	0.80	0.81	(0.01)

<sup>a</sup> The overall benchmark was based on actual portfolio weights at the end of each month during the period.

## V. Liquidity level

11. IFAD's Liquidity Policy, approved by the Executive Board in December 2006, requires that for the Seventh Replenishment period IFAD's liquidity ("highly liquid assets") remain above the level of US\$437 million.
12. Highly liquid assets in IFAD's investment portfolio as at 28 February 2007 amounted to US\$1,479 million, which comfortably clears the minimum liquidity requirement (see table 4). This level is partly tactical and is expected to drop to the US\$1,000 million, as tactical short-term investments of about US\$466 million will be maturing and reinvested in a more strategic way by July 2007.

Table 4  
**Liquidity level in IFAD's investment portfolio,  
 as at 28 February 2007**

(Millions of United States dollars)

	<i>Actuals</i>	<i>Percentage</i>
Highly liquid assets	1 479	63%
Short-term instruments	515	22%
Government securities	964	41%
Fairly liquid assets	440	19%
Non-government securities	440	19%
Partially liquid assets	415	18%
Held-to-maturities	415	18%
<b>Total portfolio</b>	<b>2 335</b>	<b>100%</b>