

Document: EB 2007/92/R.43
Agenda: 15(a)(ii)
Date: 6 November 2007
Distribution: Public
Original: English

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Report on IFAD's investment portfolio for the third quarter of 2007

Executive Board – Ninety-second Session
Rome, 11-13 December 2007

For: **Information**

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Report on IFAD's investment portfolio for the third quarter of 2007

I. Introduction

1. This report on IFAD's investment portfolio presents final data on the third quarter of 2007. It consists of six sections: asset allocation; investment income; rate of return and performance comparison; liquidity level; currency composition and risk measurement in IFAD's investment portfolio. The present report contains an annex that provides additional information 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 third quarter of 2007 and compares the portfolio's asset allocation with the investment policy allocation.
3. During the period, there was a net outflow of US\$64,811,000 equivalent from the operational cash portfolio, representing disbursements for loans, grants and administrative expenses net of cash receipts and encashment of Member States' contributions.
4. Short-term held-to-maturity investments matured for a nominal amount of US\$300,000,000 equivalent during the period. The proceeds were reinvested in the diversified fixed-interest portfolio. An additional US\$22,476,000 was transferred from the short-term held-to-maturity portfolio into the operational cash portfolio to cover disbursement needs.
5. Changes in the portfolio's allocation ratios also reflected positive net investment income of US\$53,460,000 equivalent.
6. The net movements on foreign exchange totalled US\$59,666,000 equivalent. The United States dollar depreciated against the euro, the British pound sterling and the Japanese yen, thereby increasing the value of the portfolios including those currencies in United States dollar terms.

Table 1

Movements in cash and investments by portfolio – third quarter 2007

(Thousands of United States dollars equivalent)

	<i>Operational cash^a</i>	<i>Short-term held-to-maturity^b</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 (30 June 2007)	117 345	424 660	419 500	980 893	101 105	329 314	2 372 817
Net investment income/(loss)	1 295	2 321	4 373	23 625	12 076	9 770	53 460
Transfers due to allocation	29 407	(322 476)	(5 735)	-	300 000	(1 196)	-
Transfers due to expenses	(604)	9	(35)	340	127	163	-
Net disbursements	(64 811)	-	-	-	-	-	(64 811)
Movements on exchange	2 750	1 577	8 848	29 565	(4)	16 930	59 666
Closing balance (30 September 2007)	85 382	106 091	426 951	1 034 423	413 304	354 981	2 421 132
Actual asset allocation	3.5%	4.4%	17.6%	42.7%	17.1%	14.7%	100.0%
Investment policy asset allocation	5.5%	-	-	49.0%	25.5%	20.0%	100.0%
Difference in asset allocation	(2.0%)	4.4%	17.6%	(6.3%)	(8.4%)	(5.3%)	-

^a Cash and time deposits held with banks, readily available for disbursing loans, grants and administrative expenses.

^b Short-term instruments (time deposits and commercial papers) maturing by January 2008.

III. Investment income

7. Due to the turmoil in the credit sector, financial markets experienced significant turbulence during the third quarter. However, IFAD's very conservative and high-quality investment portfolio was not adversely impacted. On the contrary: due to investors' flight to quality, fixed-interest and government bond markets in particular performed well. As a consequence, IFAD's returns for the period were higher than the previous quarter.
8. Table 2 provides details on net investment income for the third quarter of 2007 by portfolio. Overall net investment income during the period amounted to US\$53,460,000 equivalent, contributing to a year-to-date income of US\$89,431,000 equivalent.

Table 2
Net investment income by portfolio – third quarter 2007
 (Thousands of United States dollars equivalent)

	<i>Operational cash</i>	<i>Short-term held-to-maturity</i>	<i>Held-to-maturity</i>	<i>Government bonds</i>	<i>Diversified fixed-interest</i>	<i>Inflation-indexed bonds</i>	<i>Total third quarter</i>	<i>Year-to-date 2007</i>
Interest from fixed-interest investments and bank accounts	1 240	2 330	4 551	11 262	4 309	2 765	26 457	71 439
Realized capital gains/(losses)	108	-	-	(3 380)	2 725	729	182	(5 557)
Unrealized capital gains/(losses)	(28)	-	-	16 083	5 169	6 439	27 663	26 372
Amortization/accretion ^a	-	-	(213)	-	-	-	(213)	(738)
Income from securities lending	-	-	70	168	67	58	363	736
Subtotal: gross investment income/(loss)	1 320	2 330	4 408	24 133	12 270	9 991	54 452	92 252
Investment manager fees	-	-	-	(423)	(152)	(187)	(762)	(2 031)
Custody fees/bank charges	(24)	(3)	(8)	(23)	(17)	(12)	(87)	(237)
Financial advisory and other investment management fees	-	(6)	(27)	(62)	(25)	(22)	(142)	(555)
Taxes	(1)	-	-	-	-	-	(1)	2
Net investment income/(loss)	1 295	2 321	4 373	23 625	12 076	9 770	53 460	89 431

^a A period's amortization amount represents a portion of the difference between the purchase price and the final redemption value of the held-to-maturity investments, in accordance with International Financial Reporting Standards.

IV. Rate of return and performance comparison

9. 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, the Lehman Brothers United States aggregate index for diversified fixed-interest bonds and the Barclays customized inflation-linked index for inflation-indexed bonds.
10. Table 3 compares the actual net return on the overall portfolio to the benchmark return. The portfolio returned 2.21 per cent during the third quarter of 2007, net of investment expenses and excluding the impact of foreign exchange movements. This represented an outperformance of 5 basis points against the aggregate

benchmark. On a year-to-date basis the portfolio returned 3.79 percent, outperforming the benchmark by 12 basis points.

Table 3

IFAD investment portfolio performance compared with benchmarks – third quarter and year-to-date 2007

(Percentage in local currency terms)

Portfolio	Third quarter 2007 ^a			Year-to-date 2007		
	Rate of return		Out/(Under) performance	Rate of return		Out/(Under) performance
	Portfolio	Benchmark		Portfolio	Benchmark	
Overall gross rate of return ^a	2.24	2.19	0.05	3.90	3.78	0.12
Less expenses	(0.03)	(0.03)	-	(0.11)	(0.11)	-
Overall net rate of return ^a	2.21	2.16	0.05	3.79	3.67	0.12

^a The overall benchmark was based on actual portfolio weights at the end of each month during the period.

V. Liquidity level in IFAD's investment portfolio

11. IFAD's Liquidity Policy, approved by the Executive Board in December 2006, states that IFAD's liquidity ("highly liquid assets")¹ should remain above the level of US\$437 million for the Seventh Replenishment period.
12. Highly liquid assets in IFAD's investment portfolio as at 30 September 2007 amounted to US\$1,226,000,000 equivalent, which comfortably clears the minimum liquidity requirement (table 4).

Table 4

Liquidity level in IFAD's investment portfolio – as at 30 September 2007

(Millions of United States dollars equivalent)

	Actuals	Percentage
(a) Highly liquid assets	1 226	51
Short-term instruments	191	8
Government securities	1035	43
(b) Fairly liquid assets	768	32
Non-government securities	768	32
(c) Partially liquid assets	427	17
Held-to-maturity	427	17
Total portfolio	2 421	100

VI. Composition of the investment portfolio by currency

13. The majority of IFAD's commitments are expressed in special drawing rights (SDRs). Consequently, the Fund's overall assets are maintained so 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 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.

¹ Defined as being convertible to cash quickly without significant loss of value.

14. 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 what their percentage weight should be at the date of reweighting of the basket.
15. The new units for each of the four currencies composing the SDR valuation basket were determined on 30 December 2005 in such a way that the value of the SDR was precisely US\$1.42927, in terms of both the old units and the new units, which became effective on 1 January 2006. The applicable units, together with their weights as at 1 January 2006 and 30 September 2007, are shown in table 5.

Table 5

Units and weights applicable to the SDR valuation basket

<i>Currency</i>	<i>1 January 2006</i>		<i>30 September 2007</i>	
	<i>Units</i>	<i>Percentage weight</i>	<i>Units</i>	<i>Percentage weight</i>
US dollar	0.6320	43.7	0.6320	40.5
Euro	0.4100	34.3	0.4100	37.4
Yen	18.4000	10.9	18.4000	10.3
Pound sterling	0.0903	11.1	0.0903	11.8
Total		100.0		100.0

16. At 30 September 2007, assets in freely convertible currencies in the form of cash, investments, promissory notes and contributions receivable from Member States under the Fifth, Sixth and Seventh Replenishments, net of provisions, amounted to US\$2,967,120,000 equivalent, as summarized in table 6 (compared with US\$2,893,810,000 equivalent as at 30 June 2007).

Table 6

Currency composition of assets in the form of cash, investments and other receivables as at 30 September 2007

(Thousands of United States dollars equivalent)

<i>Currency</i>	<i>Cash and investments^a</i>	<i>Promissory notes^a</i>	<i>Contributions receivable from Member States</i>	<i>Total</i>
US dollar group ^b	1 095 446	105 118	129 376	1 329 940
Euro group ^c	760 606	122 669	106 172	989 447
Yen	278 834	39 558	0	318 392
Pound sterling	285 531	0	43 810	329 341
Total	2 420 417	267 345	279 358	2 967 120

^a Includes only assets in freely convertible currencies. Excluded assets in non-convertible currencies amounted to US\$715,000 equivalent for cash and investments and US\$1,399,000 equivalent for promissory notes.

^b Includes assets in Australian, Canadian and New Zealand dollars (AUD, CAD and NZD).

^c Includes assets in Swiss francs (CHF), Swedish kronor (SEK) and Danish and Norwegian kronor (DKK and NOK).

17. The alignment of assets by currency group against the SDR valuation basket as at 30 September 2007 is shown in table 7. The balance of the commitments denominated in United States dollars at 30 September 2007 amounted to US\$174,795,000 equivalent, composed of the General Reserve (US\$95,000,000) and commitments for grants denominated in United States dollars (US\$79,795,000).

Table 7

Alignment of assets per currency group with SDR valuation composition – as at 30 September 2007

(Thousands of United States dollars equivalent)

Currency	Asset amount	Less: commitments denominated in US dollars	Net asset amount	Net asset amount (Percentage)	SDR weights (Percentage)	Difference (Percentage)
US dollar group ^a	1 329 940	(174 795)	1 155 146	41.4	40.5	0.90
Euro group ^b	989 447	-	989 447	35.4	37.4	(2.00)
Yen	318 392	-	318 391	11.4	10.3	1.10
Pound sterling	329 341	-	329 341	11.8	11.8	0.00
Total	2 967 120	(174 795)	2 792 325	100.0	100.0	0.00

^a Includes assets in AUD, CAD and NZD.^b Includes assets in CHF, SEK, DKK and NOK.

18. As at 30 September 2007, there was an excess allocation in United States dollar currency group holdings (+0.9 per cent) and in the Japanese yen (+1.1 per cent), and a shortfall in the euro currency group (-2.0 per cent).

VII. Risk measurement

19. With the exception of operational cash and held-to-maturity investments, investment portfolio performance is subject to market movements. 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 30 September 2007, the standard deviation of IFAD's investment portfolio was 1.6 per cent, compared with 1.7 per cent for the investment policy.
20. Value-at-risk (VaR) is the measure of risk that IFAD uses to estimate the maximum amount that the portfolio could lose in value over a three-month time horizon, with a 95-per-cent confidence level. Table 8 shows the VaR of IFAD's investment portfolio and policy as at 30 September 2007 and for previous periods.

Table 8

Value-at-risk (VaR)

(Forecast horizon of three months, confidence level of 95 per cent)

Date	Investment portfolio		Investment policy	
	VaR (Percentage)	Amount (Thousands of US dollars)	VaR (Percentage)	Amount (Thousands of US dollars)
30 September 2007	1.4	33 900	1.4	33 900
30 June 2007	0.9	21 400	1.4	33 200
31 March 2007	0.7	16 600	1.3	30 800
31 December 2006	0.8	18 000	1.4	32 300
30 September 2006	0.8	19 100	1.4	33 400
30 June 2006	1.1	26 500	1.5	36 200
31 March 2006	1.4	33 200	1.5	35 600
31 December 2005	1.2	28 200	1.4	32 900

21. At 30 September 2007, the investment portfolio's VaR was 1.4 per cent, higher than at the previous quarter's end and in line with the investment policy VaR of 1.4 per cent. The VaR increase is a consequence of refunding the diversified fixed-income asset class in July, in order to bring the portfolio allocations closer to the policy allocation.

Report on IFAD'S investment portfolio for the second quarter of 2007

I. Introduction

1. This report on IFAD's investment portfolio presents additional information on the second quarter of 2007. It consists of two sections: composition of the investment portfolio by currency and risk measurement.

II. Composition of the investment portfolio by currency

2. The majority of IFAD's commitments are expressed in special drawing rights (SDRs). Consequently, the Fund's overall assets are maintained so 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 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.
3. 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 what their percentage weight should be at the date of reweighting of the basket.
4. The new units for each of the four currencies composing the SDR valuation basket were determined on 30 December 2005 in such a way that the value of the SDR was precisely US\$1.42927, in terms of both the old units and the new units, which became effective on 1 January 2006. The applicable units, together with their weights as at 1 January 2006 and 30 June 2007, are shown in table 1.

Table 1

Units and weights applicable to the SDR valuation basket

Currency	1 January 2006		30 June 2007	
	Units	Percentage weight	Units	Percentage weight
US dollar	0.6320	43.7	0.6320	41.7
Euro	0.4100	34.3	0.4100	36.5
Yen	18.4000	10.9	18.4000	9.8
Pound sterling	0.0903	11.1	0.0903	12.0
Total		100.0		100.0

5. At 30 June 2007, assets in freely convertible currencies in the form of cash, investments, promissory notes and contributions receivable from Member States under the Fourth, Fifth, Sixth and Seventh Replenishments, net of provisions, amounted to US\$2,893,810,000 equivalent, as summarized in table 2 (compared with US\$2,919,153,000 equivalent as at 31 March 2007).

Table 2
Currency composition of assets in the form of cash, investments and other receivables as at 30 June 2007

(Thousands of United States dollars equivalent)

<i>Currency</i>	<i>Cash and investments^a</i>	<i>Promissory notes^a</i>	<i>Contributions receivable from Member States</i>	<i>Total</i>
US dollar group ^b	1 109 022	88 399	143 634	1 341 055
Euro group ^c	734 737	116 828	88 854	940 419
Yen	256 508	22 121	14 720	293 349
Pound sterling	271 831	4 013	43 143	318 987
Total	2 372 098	231 361	290 351	2 893 810

^a Includes only assets in freely convertible currencies. Excluded assets in non-convertible currencies amounted to US\$719,000 equivalent for cash and investments and US\$1,399,000 equivalent for promissory notes.

^b Includes assets in Australian, Canadian and New Zealand dollars (AUD, CAD and NZD).

^c Includes assets in Swiss francs (CHF), Swedish kronor (SEK) and Danish and Norwegian kroner (DKK and NOK).

6. The alignment of assets by currency group against the SDR valuation basket as at 30 June 2007 is shown in table 3. The balance of the commitments denominated in United States dollars at 30 June 2007 amounted to US\$174,012,000 equivalent, composed of the General Reserve (US\$95,000,000) and commitments for grants denominated in United States dollars (US\$79,012,000).

Table 3

Alignment of assets per currency group with SDR valuation composition – as at 30 June 2007

(Thousands of United States dollars equivalent)

<i>Currency</i>	<i>Asset amount</i>	<i>Less: commitments denominated in US dollars</i>	<i>Net asset amount</i>	<i>Net asset amount (Percentage)</i>	<i>SDR weights (Percentage)</i>	<i>Difference (Percentage)</i>
US dollar group ^a	1 341 055	(174 012)	1 167 043	42.9	41.7	1.2
Euro group ^b	940 419	-	940 419	34.6	36.5	(1.9)
Yen	293 349	-	293 349	10.8	9.8	1.0
Pound sterling	318 987	-	318 987	11.7	12.0	(0.3)
Total	2 893 810	(174 012)	2 719 798	100.0	100.0	-

^a Includes assets in AUD, CAD and NZD.

^b Includes assets in CHF, SEK, DKK and NOK.

7. As at 30 June 2007, there was an excess allocation in United States dollar currency group holdings (+1.2 per cent) and in the Japanese yen (+1.0 per cent), which was offset by a shortfall in the euro currency group (-1.9 per cent) and British pounds sterling (-0.3 per cent).

III. Risk measurement

8. With the exception of operational cash and held-to-maturity investments, investment portfolio performance is subject to market movements. 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 30 June 2007, the standard deviation of IFAD's investment portfolio was 1.0 per cent, compared with 1.7 per cent for the investment policy.

9. Value-at-risk (VaR) is the measure of risk that IFAD uses to estimate the maximum amount that the portfolio could lose in value over a three-month time horizon, with a 95-per-cent confidence level. Table 4 shows the VaR of IFAD's investment portfolio and policy as at 30 June 2007 and for previous periods.

Table 4

Value-at-risk (VaR)

(Forecast horizon of three-months, confidence level of 95 per cent)

<i>Date</i>	<i>Investment portfolio</i>		<i>Investment policy</i>	
	<i>VaR (Percentage)</i>	<i>Amount (Thousands of US dollars)</i>	<i>VaR (Percentage)</i>	<i>Amount (Thousands of US dollars)</i>
30 June 2007	0.9	21 400	1.4	33 200
31 March 2007	0.7	16 600	1.3	30 800
31 December 2006	0.8	18 000	1.4	32 300
30 September 2006	0.8	19 100	1.4	33 400
30 June 2006	1.1	26 500	1.5	36 200
31 March 2006	1.4	33 200	1.5	35 600
31 December 2005	1.2	28 200	1.4	32 900

10. At 30 June 2007, the investment portfolio's VaR was 0.9 per cent, slightly higher than at the previous quarter's end, but well below the investment policy VaR of 1.4 per cent. The investment policy VaR reflects the policy allocation (table 1 of report on the third quarter).