Document:	EB 2009/96/R.33
Agenda:	14(c)(ii)
Date:	29 April 2009
Distribution:	Public
Original:	English

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Enabling poor rural people
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Report on IFAD's investment portfolio for the first quarter of 2009

Executive Board — Ninety-sixth Session
Rome, 29-30 April 2009

For: **Information**

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Report on IFAD's investment portfolio for the first quarter of 2009

I. Executive summary

1. During the first quarter of 2009, IFAD's prudent investment policy and high-quality instruments contributed to protecting the investment portfolio from the turmoil in the global financial markets. The financial crisis triggered a flight-to-quality and continued to work in favour of the performance of IFAD's investments.

2. The value of the investment portfolio in United States dollar terms decreased by US$41,122,000 equivalent, from US$2,478,511,000 equivalent at 31 December 2008 to US$2,437,389,000 equivalent at 31 March 2009. The main factors for this decrease were net disbursement outflows and foreign exchange movements, which were partially offset by the net investment income.

3. The investment portfolio's rate of return for the period is 1.38 per cent, which translates into an investment income amount of US$30,381,000 equivalent, inclusive of all fees and securities lending cash collateral activities.

II. Introduction

4. This report on IFAD's investment portfolio presents final data on the first quarter of 2009. It consists of the following sections: market conditions; asset allocation; investment income; rate of return; composition of the investment portfolio by currency; securities lending cash collateral; liquidity level in IFAD's investment portfolio; and risk measurement.

5. This paper also incorporates data from IFAD's securities lending cash collateral reinvestment, as per the report on IFAD's investment portfolio for 2008. Any unrealized gains/losses pertaining to the cash collateral reinvestment for the period are included in table 2.

III. Market conditions

6. Despite the volatility observed in the financial markets, IFAD's fixed-income investments performed positively in the first quarter of 2009. Global fixed-income markets benefited during the first quarter from the reduction in interest rates and quantitative easing measures by the central banks. The principal goal of these measures was to restore liquidity in the financial markets, support economic activities and rebuild market confidence. Government bonds performed well, especially in shorter maturities, where IFAD's global government bonds are predominately invested. Credit markets, where IFAD's diversified fixed-interest bonds are invested, continued on the recovery path that started in December 2008, benefiting from high yields – in comparison with government securities – and from many programmes initiated by governments to restore liquidity and rebuild market confidence. At the same time, the above-mentioned measures by governments, including the increase in liquidity, sowed inflationary expectations and supported the performance of inflation indexed bonds.

7. In the currency market, the United States dollar appreciated against the euro (+4.70 per cent) and the Japanese yen (+8.96 per cent), while remaining somewhat stable against the British pound sterling (+0.31 per cent).

IV. Asset allocation

8. Table 1 shows the movements affecting the investment portfolio's major asset classes during the first quarter of 2009 and compares the portfolio's asset allocation at the end of the quarter with the investment policy allocation.

9. During the period, there was a cash outflow of US$2,352,000 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.

10. The appreciation of the United States dollar against the euro, Japanese yen and, to a lesser extent, the pound sterling resulted in a decrease in the portfolio balance in United States dollar terms by US$64,596,000 equivalent during the first quarter of 2009.

11. The above movements, combined with an investment income of US$25,826,000[1] equivalent, decreased the overall investment portfolio value by US$41,122,000 equivalent for the period.

Table 1

Movements affecting the asset allocation within the portfolio, first quarter 2009
(Thousands of United States dollars equivalent)

	Operational cash[a]	*Held-to-maturity*	*Government bonds*	*Diversified fixed-interest bonds*	*Inflation-indexed bonds*	*Total*
Opening balance (1 January 2009)	**136 619**	**407 152**	**1 086 060**	**443 789**	**404 891**	**2 478 511**
Investment income[b]	341	4 073	10 571	2 315	8 526	25 826
Transfers due to allocation	3 141	(3 141)	-	-	-	-
Transfers due to expenses/income	(267)	(109)	145	104	127	-
Net disbursement[c]	(2 352)	-	-	-	-	(2 352)
Movements on exchange	(4 310)	(8 352)	(24 705)	(25)	(27 204)	(64 596)
Closing balance by portfolio (31 March 2009)	**133 172**	**399 623**	**1 072 071**	**446 183**	**386 340**	**2 437 389**
Actual asset allocation (percentage)	5.5	16.4	44.0	18.3	15.8	100.0
Investment policy asset allocation[d] (percentage)	5.5	16.4	43.3	14.8	20.0	100.0
Difference in asset allocation (percentage)	**--**	**-**	**0.7**	**3.5**	**(4.2)**	**-**

[a] Cash and time deposits held with banks, readily available for disbursing loans, grants and administrative expenses.
[b] Investment income is further detailed in table 2.
[c] Disbursements for loans, grants and administrative expenses net of cash receipts and encashment of Member State contributions.
[d] The investment policy allocation for the held-to-maturity portfolio is set to match the current 16.4 per cent asset allocation in the investment portfolio.

V. Investment income

12. In the first quarter of 2009, the aggregate investment income amounted to US$30,381,000 equivalent. All realized and unrealized gains and losses are included in the investment income. Table 2 presents a summary of the first quarter 2009 investment income broken down by asset class.

13. Some of the securities in IFAD's investment portfolio are on loan through a subsidiary of the Global Custodian, which acts as an agent for the securities lending transactions. Under this scheme, IFAD receives cash or other securities as collateral, which is held or reinvested by the subsidiary of the Global Custodian for the purpose of generating income to offset the investment expenses including the custodial fees. IFAD's securities lending income for the first quarter of 2009 was

[1] This figure does not include the impact of the unrealized gain/loss of the securities lending cash collateral reinvestment shown in table 2. The reason is that the security lending cash collateral is not directly related to any asset classes within the investment portfolio and therefore its market value change shall not affect the portfolio's asset allocation.

US$897,000[2] and this amount contributed to the overall investment performance. The balance of the unrealized holding losses pertaining to the securities lending cash collateral decreased from US$18,276,000 equivalent as at 31 December 2008 to US$13,721,000 equivalent as at 31 March 2009, which brought an unrealized holding gain of US$4,555,000 equivalent.[3]

Table 2
Breakdown of investment income by asset class and the impact of the reinvested securities lending cash collateral, first quarter 2009
(Thousands of United States dollars equivalent)

	Operational cash	*Held-to-maturity*	*Government bonds*	*Diversified fixed-interest bonds*	*Inflation-indexed bonds*	*Subtotal*	*Securities lending cash collateral impact*	*Total*
Interest from fixed-interest investments and bank accounts	358	4 142	9 547	4 394	1 939	20 380	-	20 380
Realized capital gains	7	-	12 014	3 929	87	16 037	-	16 037
Unrealized capital gains/(losses)	-	-	(10 846)	(5 909)	6 626	(10 129)	4 555	(5 574)
Amortization/accretion[a]	-	(178)	-	-	-	(178)	-	(178))
Income from securities lending	-	156	417	174	150	897	-	897
Investment income before fees a taxes	**365**	**4 120**	**11 132**	**2 588**	**8 802**	**27 007**	**4 555**	**31 562**
Investment manager fees	-	-	(430)	(205)	(219)	(854)	-	(854)
Custody fees/bank charges	(25)	(8)	(28)	(25)	(20)	(106)	-	(106)
Financial advisory and other investment management fees	-	(39)	(103)	(43)	(37)	(222)	-	(222)
Taxes recoverable	1	-	-	-	-	1	-	1
Investment income after fees & taxes	**341**	**4 073**	**10 571**	**2 315**	**8 526**	**25 826**	**4 555**	**30 381**

[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 as per the International Financial Reporting Standards.

VI. Rate of return

14. The rate of return of IFAD's investment portfolio is calculated in local currency terms without reflecting the impact of foreign exchange movements which is neutralized through the currency alignment.

15. The investment portfolio returned a positive 1.38 per cent in the first quarter of 2009, inclusive of all fees and securities lending cash collateral activities.

[2] The reinvestment income, after being deducted by a rebate paid to the borrowers, will be split between IFAD and the agent at the ratio 80:20.
[3] The reinvested cash collateral is marked to market and the unrealized gain of US$4,555,000 represents the positive change in market value in the first quarter 2009. The balance of unrealized losses of US$13,721,000 equivalent as at 31 March 2009 will not be realized unless the underlying assets are sold before maturity.

Table 3
Rate of return on IFAD's investments for first quarter 2009 and 2008
(Percentages in local currency terms)

	Rate of return	
	First quarter 2009	*First quarter 2008*
Gross rate of return	**1.40**	**2.32**
Less expenses	(0.02)	(0.05)
Rate of return	**1.38**	**2.27**

VII. Composition of the investment portfolio by currency

16. The majority of IFAD's commitments are expressed in special drawing rights. 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 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.

17. 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.

18. The new units for each of the four currencies making up 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 31 March 2009, are shown in table 4.

Table 4
Units and weights applicable to SDR valuation basket

	1 January 2006		*31 March 2009*	
Currency	*Units*	*Percentage weight*	*Units*	*Percentage weight*
United States dollar	0.6320	43.7	0.6320	42.3
Euro	0.4100	34.3	0.4100	36.5
Yen	18.4000	10.9	18.4000	12.5
Pound sterling	0.0903	11.1	0.0903	8.7
Total		**100.0**		**100.0**

19. At 31 March 2009, assets in the form of cash, investments, promissory notes and contribution receivables from Member States under the Fifth, Sixth, Seventh and Eighth Replenishments, net of provisions, amounted to US$2,694,002,000 equivalent, as summarized in table 5 (compared with US$2,796,422,000 equivalent at 31 December 2008).

Table 5
Currency composition of assets in the form of cash, investments and other receivables[a]
(Thousands of United States dollars equivalent)

Currency	*Cash and investments*	*Promissory notes*	*Contribution receivables from Member States*	*Total*
United States dollar group[b]	1 072 729	88 345	45 436	1 206 510
Euro group[c]	800 699	49 519	23 884	874 102
Yen	320 148	18 405	-	338 553
Pound sterling	243 273	19 642	11 922	274 837
Total	**2 436 849**	**175 911**	**81 242**	**2 694 002**

[a] Includes only assets in freely convertible currencies, and excludes assets in non-convertible currencies of US$540,000 equivalent for cash and investments, and US$1,399,000 equivalent for promissory notes.
[b] Includes assets in Australian, Canadian and New Zealand dollars.
[c] Includes assets in Swiss francs, Swedish kronor, Danish and Norwegian kroner.

20. The alignment of assets by currency group against the SDR valuation basket as at 31 March 2009 is shown in table 6. The balance of commitments denominated in United States dollars at 31 March 2009 amounted to US$171,299,000 equivalent, composed of the General Reserve (US$95,000,000) and commitments for grants denominated in United States dollars (US$76,299,000).

Table 6
Alignment of assets per currency group with the SDR valuation composition as at 31 March 2009
(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	1 206 510	(171 299)	1 035 211	41.0	42.3	(1.3)
Euro group	874 102	-	874 102	34.7	36.5	(1.8)
Yen	338 553	-	338 553	13.4	12.5	0.9
Pound sterling	274 837	-	274 837	10.9	8.7	2.2
Total	**2 694 002**	**(171 299)**	**2 618 611**	**100.0**	**100.0**	0.0

21. As at 31 March 2009, there was a shortfall in the euro currency group holdings (-1.8 per cent) and in the United States dollar currency group (-1.3 per cent), which was offset by an excess allocation in the pound sterling (+2.2 per cent) and in the Japanese yen (+0.9 per cent).

VIII. Securities lending cash collateral

22. IFAD enters into securities lending transactions on a collateralized basis through a subsidiary of the Global Custodian, which acts as an agent. IFAD lends securities (primarily United States government bonds) in exchange for other securities (primarily Organisation for Economic Co-operation and Development [OECD] country government bonds) or cash collateral. IFAD receives fees from the borrowers for the lending collateralized by other securities, while the cash collateralized lending generates income by reinvesting the cash collateral in the money market and in other high-quality financial instruments. IFAD has a contractual obligation to return the cash collateral to the borrowers and is thus responsible for all the risks and rewards deriving from the cash collateral reinvestment activities.

23. The market value of cash collateral reinvested against securities lent as at 31 March 2009 was US$461,858,000 equivalent, with a corresponding liability to the borrowers for US$475,579,000 equivalent. The asset class as well as credit quality compositions of the cash collateral reinvested against securities lent are shown in table 7. The difference in the collateral reinvested and the corresponding liability as at 31 March 2009 shrank to US$13,721,000 equivalent from US$18,276,000 equivalent as at 31 December 2008 thus bringing an unrealized gain of US$4,555,000 for the first quarter period, as shown in table 2.

Table 7
Composition and credit ratings of the cash collateral reinvested against securities lent as at 31 March 2009

(Thousands of United States dollars equivalent)

	AAA	*AA*	*A*	*BBB*	*Total*	*Percentage*
Cash	257 412	-	-	-	257 412	54.1
Corporate bonds	-	20 407	19 762	449	40 618	8.5
Government agencies	31 965	-	-	-	31 965	6.7
Banking industry	-	3 447	33 022	-	36 469	7.7
Mortgage backed securities	9 890	765	325	5 617	16 597	3.5
Asset backed securities	88 614	1 379	438	2 087	92 518	19.5
Total	**387 881**	**25 998**	**53 547**	**8 153**	**475 579**	**100.0**
Composition weight	**81.6**	**5.5**	**11.2**	**1.7**	**100.0**	**-**

24. The maturity structure of the cash collateral reinvested against securities lent is shown in table 8.

Table 8
Maturity structure of the cash collateral reinvested against securities lent, as at 31 March 2009[a]

(Thousands of United States dollars equivalent)

	31 March 2009		*31 December 2008*	
Period due	*Amount*	*Percentage*	*Amount*	*Percentage*
Due in one year or less	373 283	78.5	340 125	74.6
Due after one year through two years	71 096	14.9	76 296	16.7
Due after two years through three years	21 018	4.4	28 683	6.3
Due after three years through four years	8 863	1.9	10 849	2.4
Due after four years through to five years	1 319	0.3	-	-
Total	**475 579**	**100.0**	**455 953**	**100.0**

[a] The maturity structure represents the financial maturities of the reinvested cash collateral, not the legal maturities.

25. As evident from tables 7 and 8, the reinvested cash collateral is fairly liquid (54 per cent in cash and another 6.7 per cent in government agencies), maintains high quality (over 81 per cent in triple A), and over 78 per cent will be redeemed through maturity within one year. This implies that the cash collateral reinvestment will not make any meaningful impact on IFAD’s liquidity level, which is already very high relative to the minimum requirement as reported in the following section IX.

26. IFAD has revised its securities lending cash collateral reinvestment guidelines extensively for tighter risk control and has taken a conservative position so as to progressively scale back its securities lending exposure during 2009 in an orderly manner to avoid the realization of market losses. As a result, the non-cash and cash collateral will be reduced to about US$350,000,000.

IX. Liquidity level in IFAD's investment portfolio

27. IFAD's Liquidity Policy, approved by the Executive Board in December 2006, states that IFAD's liquidity ("highly liquid assets")[4] should remain above the level of US$437 million over the Seventh Replenishment period.

28. Highly liquid assets in IFAD's investment portfolio as at 31 March 2009 amounted to US$1,205,300,000 equivalent, which comfortably clears the minimum liquidity requirement (table 9).

Table 9
Liquidity level in IFAD's investment portfolio, as at 31 March 2009
(Thousands of United States dollars equivalent)

	Actuals	*Percentage*
Highly liquid assets	**1 205.3**	**49.4**
Short-term instruments	133.2	5.5
Government securities	1 072.1	43.9
Fairly liquid assets	**832.5**	**34.2**
Non-government securities	832.5	34.2
Partially liquid assets	**399.6**	**16.4**
Held-to-maturity	399.6	16.4
Total portfolio	**2 437.4**	**100.0**

X. Risk measurement

29. With the exception of operational cash and held-to-maturity investments, the 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 31 March 2009, the standard deviation of IFAD's investment portfolio was 1.97 per cent, compared with 1.88 per cent for the investment policy.[5]

30. 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 forward time horizon, with a 95 per cent confidence level.[6] Table 10 shows the VaR of IFAD's investment portfolio and that of the investment policy as at 31 March 2009 and for previous periods.

[4] Defined as being convertible to cash quickly and without significant loss of value.
[5] The security lending cash collateral programme is not factored into this volatility measurement.
[6] The security lending cash collateral programme is not factored into this VaR measurement.

Table 10
Value-at-risk (VaR)
(Forecast horizon of three months, confidence level at 95 per cent)

	Investment portfolio		*Investment policy*	
Date	*VaR (Percentage)*	*Amount (Thousands of U.S. dollars)*	*VaR (Percentage)*	*Amount (Thousands of U.S. dollars)*
31 March 2009	1.6	40 180	1.6	38 350
31 December 2008	1.5	36 182	1.6	39 533
30 September 2008	1.4	34 544	1.5	37 012
30 June 2008	1.4	36 300	1.6	41 400
31 March 2008	1.3	35 300	1.5	39 400

31. At 31 March 2009, the investment portfolio's VaR was 1.6 per cent, a slight increase from the end of the previous quarter, and in line with the investment policy VaR of 1.6 per cent. This increase reflects the current more volatile market conditions. It should be noted that the investment policy VaR is based on the policy allocation (see table 1).