

FOR ACTION & INFORMATION

Finance and Investment Report

Purpose

To define the Terms of Reference of the Finance and Investment Committee (FIC) and to inform Members of the activities of the FIC to date and to provide Members with information regarding the endowment fund investments

Issues

At its first meeting in April 2007, the Executive Board discussed the functions of the Finance & Investment Committee (FIC) and requested that the four Members nominated to the FIC, with the assistance of the Secretariat, develop a proposed set of TORs for the second Executive Board meeting. Draft TORs will be tabled by the FIC to the Executive Board for its consideration.

Following discussions at EB1, the FIC during their teleconference on July 27, 2007 agreed that it would maintain a broad mandate covering the areas of budget, audit, finance and investment.

The status of endowment funds pledged and received as at July 31, 2007 is presented in [Annex A](#) and a portfolio report from the Trust investment managers HSBC is presented in [Annex B](#).

Action

That Members consider and approve the TOR's of the FIC and that they note the other information provided in this paper.

<u>Annex A</u>	Endowment Fund status as at July 31, 2007 (1 page)
<u>Annex B</u>	HSBC Portfolio Report as at July 31, 2007 (7 pages)

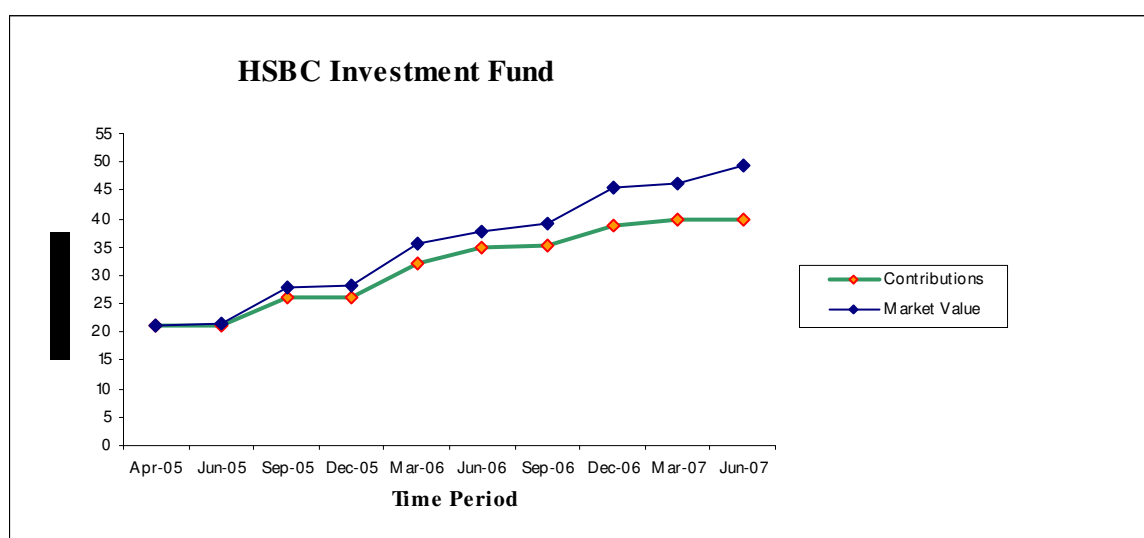
Endowment Fund Status as at July 31, 2007

Endowment Fund Contributions

	Pledged USD	Received USD
Australia	12,019,726	9,234,341
Bill & Melinda Gates Foundation	7,500,000	-
Dupont/Pioneer Hi-bred	1,000,000	1,000,000
Egypt	166,657	25,000
Ethiopia	50,000	25,000
Germany	9,933,790	1,962,000
India	50,000	50,000
International Seed Federation	30,000	30,000
Ireland	4,014,163	1,356,900
Norway	15,176,617	7,676,617
New Zealand	50,000	50,000
Sweden	7,264,700	7,264,700
Switzerland	10,000,000	8,175,610
Syngenta AG	1,000,000	1,000,000
United Kingdom	19,589,727	9,722,403
United States	5,000,000	5,000,000
Total	92,845,380	52,572,571

Investment Fund Status

HSBC Investment – Market Value (Return since inception (June 2005) 39.5%; annualized 16.6%)	USD 48,860,701
Funds held on Fixed-term Deposit	USD 18,968,102
Total Funds under Investment	USD 67,828,803
Contributions expected September 2007:	
▪ Bill & Melinda Gates Foundation	USD 7,500,000
▪ Norway	USD 7,500,000
▪ Germany	USD 1,992,950
Funds Receivable – September 2007	USD 16,992,950



HSBC Portfolio Report – July 31, 2007



HSBC Investments
The Global Crop Diversity Trust
Portfolio update

August 2007

HSBC 

The Global Crop Diversity Trust

August 2007 portfolio update

Provided by:

HSBC Investments (UK) Limited
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Authorised and regulated by the Financial Services Authority

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Performance and strategy overview

The fund has performed well since inception, with a return of 39.5%, against an estimated (the hedge fund benchmark index is currently provisional) benchmark return of 31.6% for the period from 1st June 2005 until 31st July 2007. A more detailed breakdown of performance is given in the section on portfolio performance below.

The table below shows how the fund was invested relative to the benchmark as at the 31st July 2007.

Asset class	Value \$	% fund	% benchmark	Relative
US Equities	9,359,418.24	19.16	26.0	(6.84)
Non-US Equities	11,265,361.24	23.06	16.0	7.06
Emerging Market Equities	6,775,864.19	13.87	10.5	3.37
US Government Bonds	8,100,736.26	16.58	27.5	(10.92)
US Corporate Bonds	7,560,665.96	15.47	7.5	7.97
Emerging Market Bonds	863,583.04	1.77	2.5	(0.73)
US Real Estate	1,355,369.07	2.77	4	(1.23)
Hedge Funds	2,861,184.66	5.86	6	(0.14)
Cash	718,518.68	1.47	0	1.47
Total	48,860,701.34	100.0	100.0	

Relative to the benchmark, the fund remains overweight in equities and underweight in bonds. The fund is now broadly in line in hedge funds and underweight in US real estate. A small amount of cash is held for operational reasons. Within equities, non-US equities are still preferred to US equities on valuation and fundamental grounds, with an overweight position in European, Japanese and Asian equities. We are also positive on emerging market equities, and the fund remains overweight in these. Within bonds, we are underweight in US government bonds and overweight in corporate bonds. Within corporate bonds, we have moved underweight in high yield bonds. We remain underweight in emerging market bonds.

Market trends and background

Markets have been strong since your portfolio was established in early May 2005. The best returns have come from equities, particularly the European and emerging markets. European equities have benefited from a sustained, if relatively subdued, economic recovery in Europe. Asian economies and stock markets have benefited from continued good global growth and particularly from strong

growth in China. US equities have lagged other major markets, although this partly reflects weakness in the dollar relative to other major currencies.

Returns from bond markets have been more subdued. US government bonds and corporate bonds produced negative returns in the second quarter of 2007, resulting in mid single digit returns since May 2005. High yield and emerging market bonds have outperformed US government bonds, as investors have continued to chase yield, causing spreads to narrow. US real estate has performed strongly, despite rising interest rates, driven by takeovers and the strong US economy. As would be expected at times of rapidly rising equity markets, hedge funds have lagged equities, but have still produced good returns in absolute terms.

The table below shows the performance of each of the markets in which you are invested, both during the 2nd quarter 2007, and since your initial investment in early May 2005 until end July 2007.

Asset class	Performance in Q2 2007	Performance since 30/4/05
US Equities	6.1	31.7
European Equities	8.7	66.4
Japanese Equities	-0.6	44.2
Emerging Market Equities	15.1	123.0
US Government Bonds	-0.4	7.4
US Corporate Bonds	-0.7	7.1
US High Yield Bonds	0.3	17.6
Emerging Market Bonds	-1.4	21.4
US Real Estate	-8.9	27.6
Hedge Funds	4.6	29.4*

Source: HSBC. * The number for hedge funds is provisional, based on estimated benchmark returns up to 31/7/07, which may be subject to slight change.

Financial markets have been volatile since the end of the second quarter, in response to fears of a threat to global growth from the problems in the US sub-prime mortgage market. Our views on this are discussed in the section below on outlook and risks.

Performance analysis

The fund has performed well since inception, with a return of 39.5%, against an estimated benchmark return of 31.6% for the period from 1st June 2005 until 31st July 2007.

The table below breaks down the performance attribution of the fund, showing which areas have added to, or detracted from, performance since June 2005 (the first full month during which the fund was invested). The difference between the attribution total of 6.16% and the relative performance of 7.90% is due to timing differences.

Asset class	Asset allocation	Stock selection
Global Equities	0.04	3.19
Emerging Market Equities	1.02	0.46
US Bonds	1.05	0.09
Emerging Market Bonds	0.03	0.09
US Real Estate	0.07	0.09
Hedge Funds *	-0.02	0.07
Cash	-0.56	0.54
Total	1.63	4.53

Source: HSBC. * Numbers for hedge funds are provisional, based on estimated benchmark returns up to 31/7/07, which may be subject to slight change.

As can be seen from the table, both asset allocation and stock selection have added value to the portfolio. Within asset allocation, the biggest contributions have come from the overweight position in emerging market equities and the underweight in US government bonds. This has been in part offset by the drag from holding cash (which is not in the benchmark but essential for portfolio management purposes) at a time of strongly rising markets. Stock selection has seen positive contributions from all areas. The largest contributions have come from global equities, emerging market equities and cash.

Comments on the benchmark

Your benchmark was recommended on the understanding that you were seeking a return, over the long term, of 6.5% pre fees and 6% post fees, comprising long term market returns (beta) of 5.5% and value added by us (alpha) of 1% per annum. We also understood that you were seeking a US dollar based fund, and that you were happy to have a significant exposure to emerging markets as a number of your operations were based in these markets. The benchmark we proposed was forecast to produce this over the long term and was intended to be a long term strategic position from which we would take shorter term tactical positions (within agreed bands) according to our short term views on markets. We remain comfortable with the benchmark and would not recommend any significant changes at this stage UNLESS your objectives have changed. I understand that there has been some debate as to whether the US dollar is the appropriate base currency. If it is decided that this is not the case, then we would need to revisit the benchmark. For example a Euro based benchmark would inevitably result in less US, and more European, based assets.

From a purely practical point of view, it would be easier for us to run the global equity portion of the fund against the MSCI World index, rather than separating it into US, European, Japanese and other equities, since this is how the global equity team operate in practice. This would not involve a significant change.

Outlook and risks

Despite the recent turmoil in financial markets, the macro economic outlook has not changed significantly. Our central case remains for a slowdown in global growth, led by a significant slowing in the US economy. The current volatility in financial markets is, in our view, primarily a financial event resulting from a significant increase in investor risk aversion and reduced liquidity. Central banks are acting appropriately to provide needed liquidity and once greater clarity on the valuation of lower quality bond assets returns, markets should normalise. This financial volatility will only impact the broad economic outlook should it persist for an extended period of time. Whilst there may be some security specific earnings and valuation impacts as a result of the significant liquidity reduction in the markets, broadly speaking the fundamental macro environment remains supportive of capital markets.

Valuations of equities look reasonable, and continue to be well supported by the macro environment as well as earnings growth. However, in the short term, further declines in the equity markets are possible. These spikes generally last for a fairly brief time. Again with no change in the macro outlook, we continue to feel equities provide reasonable return potential. With risk aversion likely to persist in credit markets in the near future, corporate and high yield bond markets are likely to remain nervous for some time.

The key risks to financial markets are deemed to be:

- US recession – recent falls in financial markets have been due to fears of US recession. Our central case remains for a soft landing, but recent events have increased the risk of a recession, resulting from reduced availability of credit and a fall in consumer confidence. A recession in the US would affect not only US equities and property, but would also be likely to result in a further increase in risk aversion, with negative implications for higher yielding bonds. Non-US equities would also be impacted, particularly those of markets whose economies have benefited from strong exports to the US in recent years.
- Global imbalances – the level of the US balance of payments deficit looks unsustainable longer term, and poses a risk to the US dollar and (in the event of a significant and sharp fall in the dollar) to global stability and growth. However, a slowdown in US growth at a time when recoveries in Japan and Europe and good growth in Asia ex Japan are expected to continue should help to depress the US balance of payments deficit.
- Geopolitical risks, most notably: the ongoing threat of terrorist attacks; conflicts in the Middle East; and the unpredictable nature of North Korea, remain the hardest risks to predict. Barring a major escalation markets are likely to shrug off most incidents, provided there is no marked upwards pressure on the oil price as a result.