Investment Management of Trust Funds and Financial Intermediary Funds

WORLD BANK GROUP
Today’s development challenges are complicated and intertwined, requiring meaningful collaboration among development partners to solve. Trust funds and financial intermediary funds (FIFs) represent some of the best cooperation. These resources work across the development spectrum to meet critical needs, complementing the Bank’s core funding and delivering on a shared vision of creating a world free of poverty on a livable planet.

Since the 1980s, development partners have entrusted the World Bank with the financial management of their contributions to trust funds and FIFs. The Bank serves as trustee for trust funds and FIFs, responsible for receiving and investing development partner contributions until funds are disbursed to final recipients for development projects. The Bank’s investment management services are tailored to preserve development partner funds and ensure their availability while augmenting their value. Development partners can rely on the Bank to meet their varying investment requirements and risk tolerances, providing right-sized opportunities to enhance investment returns.

The following pages describe the Bank’s investment management services, processes, and performance trends. The Bank continues to build on its global reputation as a prudent and innovative borrower, investor, and risk manager and strives to remain a partner of choice for trust funds and FIFs.
The World Bank receives contributions to trust funds and financial intermediary funds (FIFs) from development partners. These contributions are invested in capital markets until the funds are disbursed to final recipients for development projects. When development partners’ contributions are received in national currencies, funds are primarily converted into United States Dollars ($), which is the main currency of eventual disbursements to recipients.

At the end of fiscal year 2023 (June 30, 2023), the assets under management (AUM) for trust funds and FIFs totaled $44.6 billion. This represents a compound annual growth rate of 6.5 percent since the end of fiscal year 2013 when AUM totaled $23.8 billion. The consistent growth in AUM reflects development partners’ confidence in the financial solutions the World Bank provides to address complex development challenges.

The Investment Pool

The World Bank manages the liquid assets of trust funds and FIFs in a single, commingled investment portfolio. This investment pool provides the following benefits:

a. Agile portfolio management that includes a selection of model portfolios to accommodate the liquidity needs and risk and return profiles of the various funds managed within a comprehensive risk management framework
b. Access to a variety of investment products and longer-term maturity investments to enhance investment returns and income over time
c. Engagement with trusted market counterparties and banking relationships to ensure the best execution and pricing for investments and trade settlements
d. Access to a cost-effective and advanced investment infrastructure platform resulting in low administrative costs to participants (e.g., legal agreements with market counterparts to facilitate access to a diverse array of investment products)
e. Active liquidity management to make cash available for disbursements to recipients when required and optimize investments over the longer term

INVESTMENT OBJECTIVE AND ASSET ALLOCATION

Preservation of capital is the primary investment objective of the investment pool. This reflects development partners’ sensitivity to any potential losses of capital that could arise from adverse movements in international capital markets. Recognizing that individual trust funds and FIFs within the pool might have different investment horizons due to differing liquidity needs and risk tolerances, the World Bank Treasury offers eight model portfolios with asset allocations designed to meet specific investment objectives, investment horizons, and risk tolerances. Individual trust funds and FIFs participate in the model portfolios in accordance with their investment horizon and risk appetite.
## Model Portfolios of the Investment Pool

<table>
<thead>
<tr>
<th>Model Portfolio</th>
<th>Description</th>
<th>Investment Objective [1]</th>
<th>Asset Allocation/Benchmark</th>
<th>Historical 3-yr Cumulative Return (USD only)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 Cash Tranche</td>
<td>Enhance return subject to ensuring timely availability of cash when needed</td>
<td>Overnight cash</td>
<td>Dynamic (government bonds and money markets)</td>
<td>4.84%</td>
</tr>
<tr>
<td>1 Capital preservation over a 1-year horizon</td>
<td>Enhance returns subject to capital to a high degree of confidence over a 1-year horizon</td>
<td>Dynamic (government bonds, money markets, and US Agency MBS)</td>
<td>4.37%</td>
<td></td>
</tr>
<tr>
<td>2 Capital preservation over a 3-year horizon</td>
<td>Enhance returns subject to capital preservation</td>
<td>SOFR-based</td>
<td>1.10%</td>
<td></td>
</tr>
<tr>
<td>3[2] SOFR based</td>
<td>Maximize returns relative to SOFR benchmark</td>
<td>Dynamic (government bonds, money markets, and US Agency MBS) and global developed market equities</td>
<td>5.58%</td>
<td></td>
</tr>
<tr>
<td>4[2] Return Maximization over a 5-year horizon</td>
<td>Enhance returns subject to capital preservation</td>
<td>Dynamic (government bonds, money markets, and US Agency MBS) and up to 10% global developed market equities</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td>5[3] Return Maximization over a 1-year horizon</td>
<td>Enhance returns subject to ensuring timely availability of liquidity when needed</td>
<td>Dynamic (government bonds, money markets, and US Agency MBS)</td>
<td>4.93%</td>
<td></td>
</tr>
<tr>
<td>5[4] Return Maximization over a 5-year horizon</td>
<td>Enhance returns subject to capital preservation</td>
<td>0-5 year SSA benchmark</td>
<td>4.15%</td>
<td></td>
</tr>
<tr>
<td>8 SRI Mandate with Capital Preservation over a 3-year horizon</td>
<td>Enhance returns subject to capital preservation to a high degree of confidence over a 3-year horizon while delivering positive developmental impact</td>
<td>0%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Trust fund and FIF liquid assets held in the investment pool are invested in a range of instruments within the high-grade fixed-income category, such as U.S. dollar securities issued by sovereign governments, government agencies, as well as multilateral and other official institutions. Asset holdings also include money market securities, such as short-term investments with commercial banks, and asset-backed and agency-guaranteed mortgage-backed securities (MBS).

### Asset Composition of the Trust Funds and FIFs Investment Pool, Fiscal Years 2019 - 2023

![Asset Composition Graph](image-url)

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1. Customized and designed for a single fund only.
2. Participation in Model portfolio 4 (MP4) is subject to specific instructions from the relevant trust fund or FIF governing body. MP4 has been approved, but it has not been implemented.
3. Customized and designed for a single fund only.
4. Customized and designed for a single fund only.

Model Portfolio 8 earned a cumulative -1.71% over FY22-23.
The World Bank defines market risk measures that accommodate varying client risk tolerances and meet the primary objectives of capital preservation and availability of liquidity for development activities. Risk tolerance measures are defined to enable opportunities for risk-taking while limiting potential losses from adverse market movements. Conditional Value-at-Risk (CVaR) measure is the primary risk measure used by the World Bank. It is defined as limiting the estimated average loss to the portfolios in the worst 1 percent of loss events. The World Bank’s Model Portfolios have their overall market risk constrained by a CVaR measure as follows:

- Model Portfolio 1 – 99 percent CVaR of -25 basis points
- Model Portfolio 2 – 99 percent CVaR of -100 basis points
- Model Portfolio 4 – 99 percent CVaR of -100 basis points
- Model Portfolio 8 – 99 percent CVaR of -100 basis points
- Model Portfolios 3, 5, and 5s are further subject to separate investment guidelines outlined in the contractual undertakings that govern relationships with the relevant entities.

Generating persistent investment income within an overarching conservative investment style is the cornerstone of asset management services at the World Bank. This is achieved through an effective asset allocation process, established risk management process, and active portfolio management. The World Bank maintains strict oversight over the portfolio governance and performance, making amendments as necessary during the period. The investment portfolios of trust funds and FIFs have generated a cumulative total investment income of over USD2.6 billion over the past five years, resulting in additional development resources for the funds participating in the pool.

Investments for trust funds and FIFs benefit from a robust governance and oversight process. The investment strategies for trust funds and FIFs are periodically reviewed and approved at the appropriate governance level within the World Bank. Various departments and financial committees, including the Board’s Audit Committee, maintain oversight and review of the investment strategies. The risk profile and performance of trust fund and FIF investments are monitored on an ongoing basis. Further, investment policy and asset allocations are assessed in regular management discussions, while investment returns are reported at least monthly.
Further to its mission of ending extreme poverty and promoting shared prosperity on a livable planet, the World Bank is committed to a broader and ambitious development agenda focusing on the Sustainable Development Goals (SDGs) and helping its client countries achieve their climate action targets. Since July 2019, the World Bank Treasury has incorporated environmental, social, and governance (ESG) factors into the investment process of all the portfolios it manages. Its sustainable and responsible investment (SRI) approach, ESG Integration, is further enhanced by its Sustainable Fixed Income Strategy introduced in June 2021.

The strategy uses the thematic investment approach to target investments that are deemed to make a positive development impact, largely by directly supporting the advancement of the SDGs. Initially implemented with an investment universe focused on supranational, sub-sovereign, and agency (SSA) bonds, the strategy selects suitable investments through a process of positive identification. This means investing in bonds that the World Bank Treasury has identified as generating a positive, and preferably measurable, environmental and/or social impact in addition to the traditional financial characteristics, such as positive expected risk-adjusted returns. The securities held in the strategy provide financing to issuers, who then finance projects deemed eligible under their bond frameworks. As the SRI ecosystem evolves and expands its scope and trajectory, the World Bank Treasury will continue to adapt to the needs of its development partners in the management of the investment portfolios of trust funds and FIFs.

The strategy uses issuer information for each bond to calculate the impact at the issuance level, as well as at the holdings level, using a prorating approach. The topline impact numbers show prorated impact attributed to the holdings of the strategy as of June 30, 2022. This is a very simplified representation of the impact that aligns to the methodology used by other investors. It provides an indication of the scope of impact yet underestimates the actual support since only part of the results is reported.

6 The World Bank does not have direct exposure to the projects financed by these issuers, nor does it bear any direct project risk.
Topline Impact Numbers

377,936
MWh per year in new renewable energy generation

2,483
Beneficiaries of anti-poverty programs

379
Farmers with access to improved agricultural services or investments

122,796
tCO2e avoided per year from renewable energy generation

433
Students benefited from education programs

3,549
Electric vehicles manufactured

1,724
New users of public transportation

4,089
m² of inclusive & sustainable areas and healthy ecosystems developed

Source: Sustainable Fixed Income Strategy Impact Report 2022
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>AUM</td>
<td>Assets under management</td>
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<tr>
<td>CAGR</td>
<td>Compound annual growth rate</td>
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<tr>
<td>CvaR</td>
<td>Conditional value-at-risk</td>
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<tr>
<td>ESG</td>
<td>Environmental, Social, and Governance</td>
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<tr>
<td>FIF</td>
<td>Financial intermediary funds</td>
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<tr>
<td>MBS</td>
<td>Mortgage-backed securities</td>
</tr>
<tr>
<td>SDG</td>
<td>Sustainable Development Goals</td>
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<tr>
<td>SOFR</td>
<td>Secured overnight financing rate</td>
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<tr>
<td>SRI</td>
<td>Sustainable and responsible investment</td>
</tr>
<tr>
<td>SSA</td>
<td>Supranational, sovereigns, and agencies</td>
</tr>
</tbody>
</table>