Global Fund Trust Fund Performance Summary `

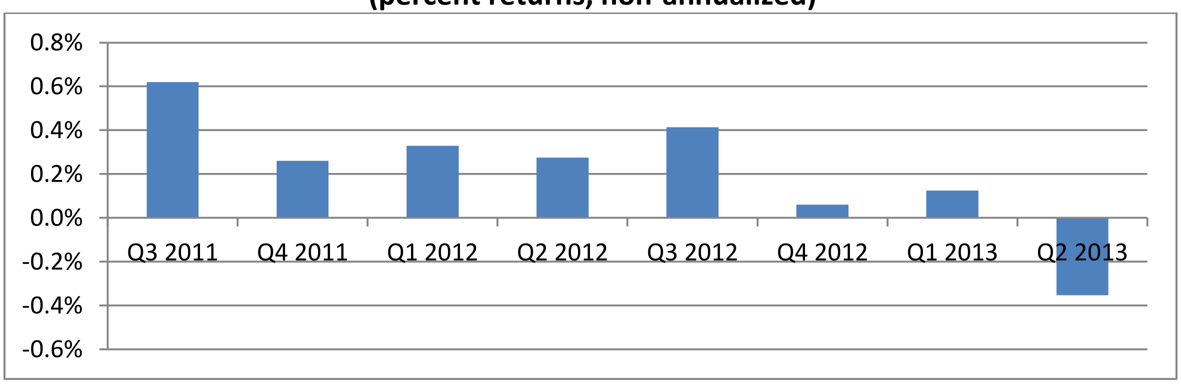
As of June 30, 2013

Summary. Rising global interest rates dominated the financial markets in the second quarter of 2013, triggered by increased expectations that the period of low interest rates accompanying the quantitative easing program in the United States was coming to an end. As a result, most fixed-income sectors saw negative total returns during the quarter. The Global Fund investment portfolio, which is dominated by highly rated fixed-income securities, registered a net investment loss of USD equivalent (USDeq) 9 million during the first six months of 2013 due to a negative mark-to-market valuation.

Drivers of portfolio performance. The performance of the Global Fund Trust Fund reflects that of the global fixed-income securities markets, which experienced increasing volatility in the second quarter of 2013 as interest rates increased from historic lows. Much of this volatility was in response to shifting expectations about the timing of when the US Federal Reserve (US Fed) would begin to taper asset purchases to unwind its quantitative easing program. In May 2013, the US Fed gave indications that they might slow down quantitative easing starting September 2013 in light of positive economic indicators. This triggered a sell-off in risk assets and a dramatic rise in yields in May and June 2013, which were reflected in lower bond prices, particularly for longer-dated securities. (Yields on long-dated securities are more sensitive to changes in interest rates than those of shorter-term securities: for example, 10-year US Treasuries rose by 50 basis points in May, whereas 2-year Treasury yields increased 7 basis points; this was reflected in the related decreases in bond prices and thus their mark-to-market value.) Given that Global Fund Trust Fund assets are largely invested over a three-year horizon (see *Performance by Tranche* below), the decline in prices affected the value of the portfolio.

Summary of portfolio performance. In the first half of 2013, the Global Fund Trust Fund investment portfolio realized income of USDeq 16 million on average balances of USDeq 5 billion, and incurred unrealized (mark-to-market) losses of approximately USDeq 25 million, resulting in the net mark-to-market investment loss of USDeq 9 million noted above. As shown in the breakdown of returns by quarter (Figure 1), the second-quarter loss coincided with the rise in yields noted above.

Figure 1: Quarterly Performance of the Global Fund Trust Fund (percent returns, non-annualized)



Portfolio performance by investment tranche. The World Bank as Trustee allocates Trust Fund assets to investment Tranches based on the Global Fund's expected liquidity requirements (see Box 1):

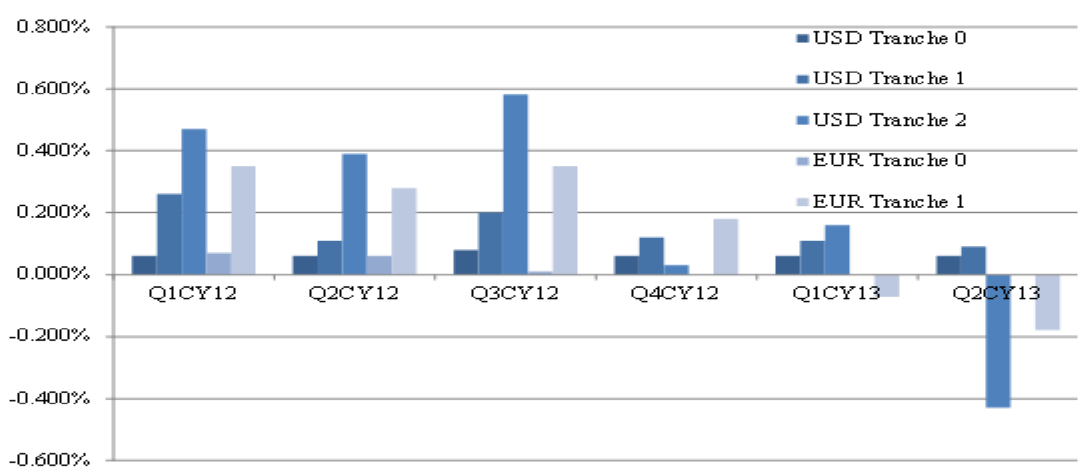
- cash portfolios in USD and Euros (Tranche 0);
- short-term portfolios in USD and Euros (Tranche 1); and
- a longer-term portfolio in USD (Tranche 2).

Table 1 presents the balances in each of these Tranches as of June 30, 2013, with returns by Tranche. Quarterly performance by Tranche (Figure 2) highlights that USD Tranche 2 and Euro Tranche 1 experienced losses in the second quarter consistent with the shift in market yields on fixed-income securities. As these are the Tranches in which the Trust Fund was most heavily weighted, this brought down the overall returns of the Trust Fund for the first half of 2013.

Table 1. Investment Returns for the Global Fund Trust Fund and by Tranche

	Size	Investment Returns			
	30-Jun-13 (USD eq mln)	YTD (30-Jun-13) %	YTD (30-Jun-12) %	CY12 %	CY11 %
Global Fund Trust Fund	**4,410**	**-0.21%**	**0.61%**	**1.08%**	**1.72%**
of which					
USD					
- *Tranche 0*	63	0.12%	0.12%	0.26%	0.24%
- *Tranche 1*	196	0.20%	0.37%	0.70%	0.55%
- *Tranche 2*	3,411	-0.27%	0.86%	1.52%	2.36%
EUR					
- *Tranche 0*	(20)	0.00%	0.13%	0.14%	0.87%
- *Tranche 1*	759	-0.25%	0.63%	1.15%	1.67%
Other	0	0.75%	1.09%	2.00%	2.32%

Figure 2. Quarterly Performance by Tranche (percent returns, non-annualized)



Returns for Tranche 0 (USD and Euro) have been near zero for the past year, reflecting the low rates on the highly liquid asset classes in which they are invested.

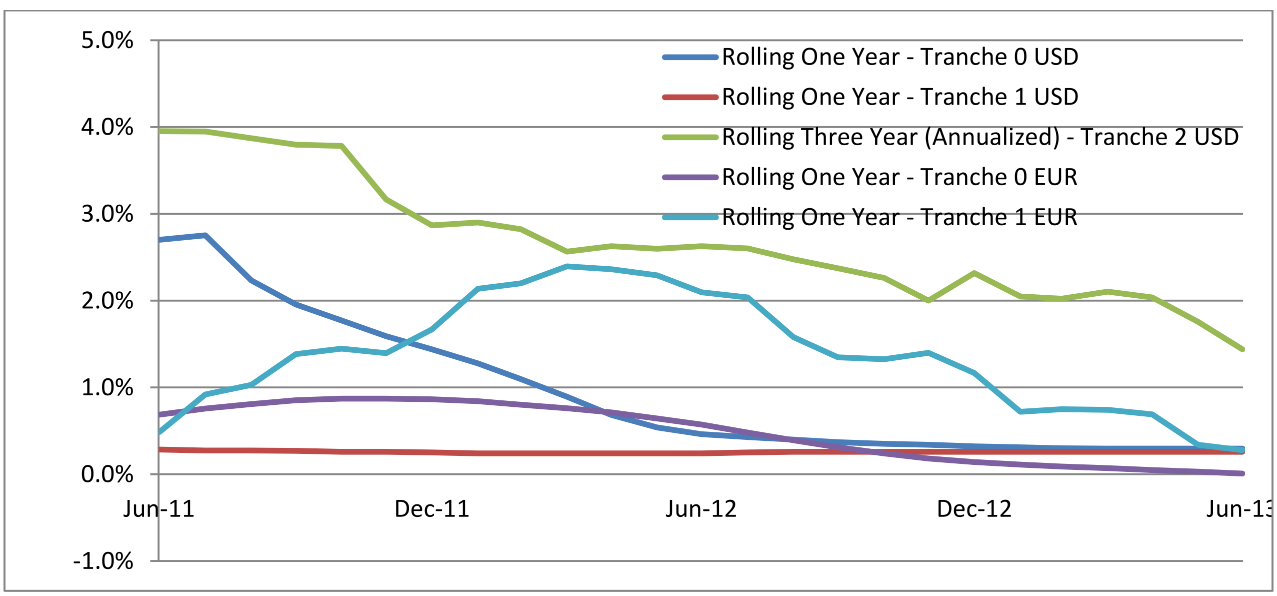
Returns for USD Tranche 1 have slightly exceeded those for Tranche 0, but have been more volatile on a monthly basis.

Returns for USD Tranche 2 fluctuated significantly in the first half of 2013, reflecting the Tranche's three-year investment horizon as well as market conditions over the period: Tranche 2 declined slightly in January, generated positive returns for the following three months, then experienced mark-to-market losses due to market interest rate increases in May and June, erasing the gains from earlier in the year and resulting in a 0.27% loss for the first half of 2013.

Returns for Euro Tranche 1 were also negative in the first half of 2013, due to the increase in yields on holdings of high-quality European sovereign bonds.

When considered against each Tranche's investment horizon, performance remained positive for the year ending June 30, 2013 (see Figure 3). Because the portfolio is heavily weighted in Tranche 2, the aggregate return on the portfolio over the past 3 years (1.09% per annum on an annualized basis) has been close to that of Tranche 2 (1.44% pa), which in turn has consistently outperformed other Tranches.

Figure 3. Rolling Returns by Tranche



Market outlook and portfolio positioning. The market outlook remains uncertain in the light of continued financial market volatility. This poses continued risks for fixed-income investments, as further increases in market interest rates would result in further mark-to-market (i.e. book) losses for fixed income returns in general, particularly given the relatively low yields available on the market. Based on this market outlook, the World Bank has positioned the Trust Fund investment portfolio Tranches conservatively and has taken several steps to reduce the interest-rate sensitivity of the portfolio:

- The duration (weighted-average time to maturity) of the Trust Fund has been reduced and remains relatively short (1.23 years for the US portion and 0.81 years for the Euro portion);
- The allocation to agency MBS (Tranche 2 only) was marginally reduced, enabling the portfolio to lock in gains;
- Efforts have been underway to enable investments in a broader range of markets and financial instruments in order to achieve greater diversification of portfolio risks and generate value in the Trust Fund portfolio's liquidity balances.

These steps are expected to limit the impact of potential future interest-rate increases. While we expect total returns for the portfolio to be modest at best, in the short term, actual returns will depend on market conditions.

Box: ***Allocation to investment tranches****.* Trust Fund assets are allocated to investment tranches (maintained by the World Bank as trustee) based on the Global Fund's expected liquidity requirements. The objective of each of these tranches is to maximize returns subject to capital preservation over the specified investment horizon and subject to liquidity needs. Funds that are expected to be required for disbursement are allocated to Tranche 0 (cash portfolios—USD and Euro); funds required within a year are allocated to Tranche 1 (short-term portfolios—USD and Euro—with a one-year investment horizon); funds that are not expected to be required for more than a year are allocated to Tranche 2 (longer-term portfolio with a three-year investment horizon). Longer-horizon tranches are subject to more volatility but have experienced higher returns over the investment horizon than the cash tranches. General characteristics of the liquidity tranches are summarized below:

- **Tranche 0:** cash portfolios (in USD and Euros): investment objective is to enhance returns subject to ensuring liquidity and timely availability of cash;
- **Tranche 1:** short-term portfolios(in USD and Euros): investment objective is to maximize returns over a ***one***-year horizon subject to limiting the probability of negative return with a high confidence level; and
- **Tranche 2**: a longer-term portfolio (in USD only): investment objective is to maximize returns over a three-year horizon subject to limiting the probability of negative return with a high confidence level.

Performance relative to global markets. The performance of the Global Fund Trust Fund reflects that of the global fixed-income securities markets, in terms of both trend and volatility.

- Returns on liquid investments have been less than 0.5% pa since mid-2009 (QE from Nov 2008)
- Market interest rates began to rise in 2013, and became increasingly volatile.
  - May: Yields rose amid market expectations that the USFed would slow its quantitative easing program sooner than expected. Yields for 2-, 3-, 7- and 10-year US Treasuries jumped 7 bps, 10 bps, 45 bps and 50 bps, respectively
  - June: yields continued to rise: 3, 7- and 10-yr T rose another 16 bps, 38 bps and 41 bps
- The increase in yields caused the value of fixed-income securities to fall (see Figure 4 below). With the increase in the yields for 3-, 7-, and 10-year Treasuries over the months of May and June 2013, the prices of these securities decreased by approximately 2.5%, 3.6% and 6.2%, respectively.
- Major stock indices have recovered the losses sustained in 2008.
- Consideration should again be given to the recommendation made previously: that a small allocation to a broad-based equity portfolio would help diversify the portfolio, likely reduce volatility, and could enhance returns.

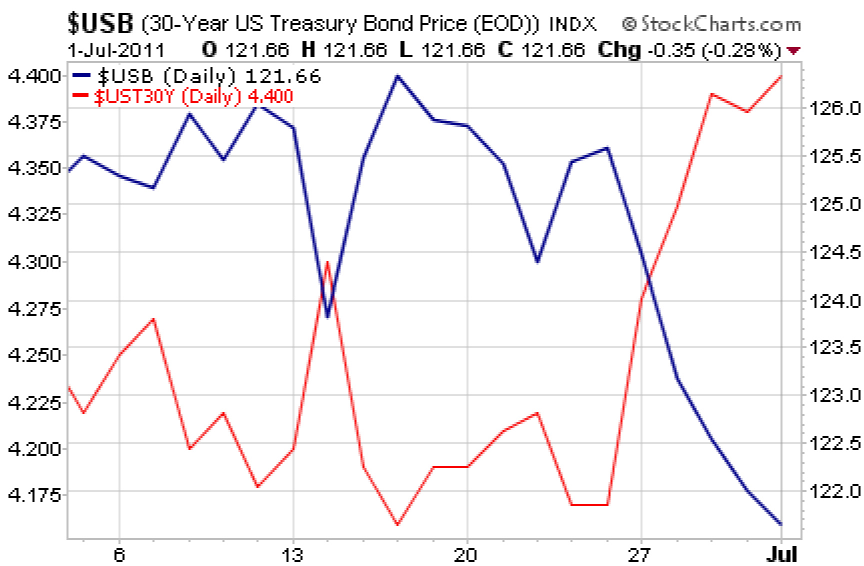


Figure 4 above shows the 30-year Treasury bond prices (in blue) moving inversely with the 30 Year Treasury yield (in red).