



The Global Fund Trust Fund

Financial Report

Prepared by the World Bank

as Trustee to the Global Fund to Fight AIDS, Tuberculosis and
Malaria

As of September 30, 2013



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Introduction and Highlights

This report summarizes the financial situation of the Trust Fund for the Global Fund to Fight AIDS, Tuberculosis and Malaria (the “Global Fund Trust Fund” or the “Trust Fund”) as of September 30, 2013, prepared by the World Bank in its capacity as Trustee, including information on trust fund balances, investment income, donor contributions, grant commitments and disbursements, and funds available for commitment.

Highlights for the **first nine months of 2013** include:

- ***The Global Fund Trust Fund earned net investment income of USD equivalent (USDeq) 4 million*** as of September 30, 2013, reflecting the impact on fixed-income securities of volatility in market interest rates as they rose from historically low levels. The investment income consisted of realized income of USDeq 16 million net of unrealized (mark-to-market) losses of approximately USDeq 12 million.
- ***Donors contributed USDeq 2.3 billion***, compared to USDeq 2.2 billion during the same period in 2012.
- ***Commitments and disbursements were USDeq 1.5 billion and USDeq 2.5 billion, respectively***, representing a decrease of 21% in commitments and an increase of 25% in disbursements relative to the same period in 2012.
- ***Resources available for commitment amounted to USDeq 4.2 billion*** as of September 30, 2013.



1. Financial Summary as of September 30, 2013

(USD equivalent millions)

	Year to date 30 September 2013	Inception to 30 September 2013
a Resources at the beginning of the period	*	*
	<u>6,477</u>	<u>0</u>
Receipts		
Cash Contribution amounts received on signed agreements	2,251	27,180
Promissory Notes and Similar Obligations ¹	103	1,263
Investment Income	4	1,232
b Total Receipts	*	*
	<u>2,358</u>	<u>29,675</u>
Disbursements		
Project Disbursements	2,339	21,593
Other Disbursements	201	1,758
c Total Disbursements	*	*
	<u>2,541</u>	<u>23,351</u>
d Impact of end of period revaluation	<u>-29</u>	
e Resources at the end of the period (a+b-c+d)	*	*
	<u>6,324</u>	<u>6,324</u>
Commitment of Resources		
Outstanding Commitment for grants at the beginning of the period	3,098	
Commitments made during the period	1,517	
f Outstanding Commitment for grants at the end of the period	2,085	
g Resources available for commitment at the end of the period (commitment authority) (e-f)	*	
	<u>4,239</u>	

¹ Represents activity in the Promissory Notes account (includes encashments, new notes and similar obligations)
* Non-USD currencies are valued on the basis of the exchange rates as of the end of the reporting period. The amount reported includes the impact of change in exchange rates.

2. Contributions

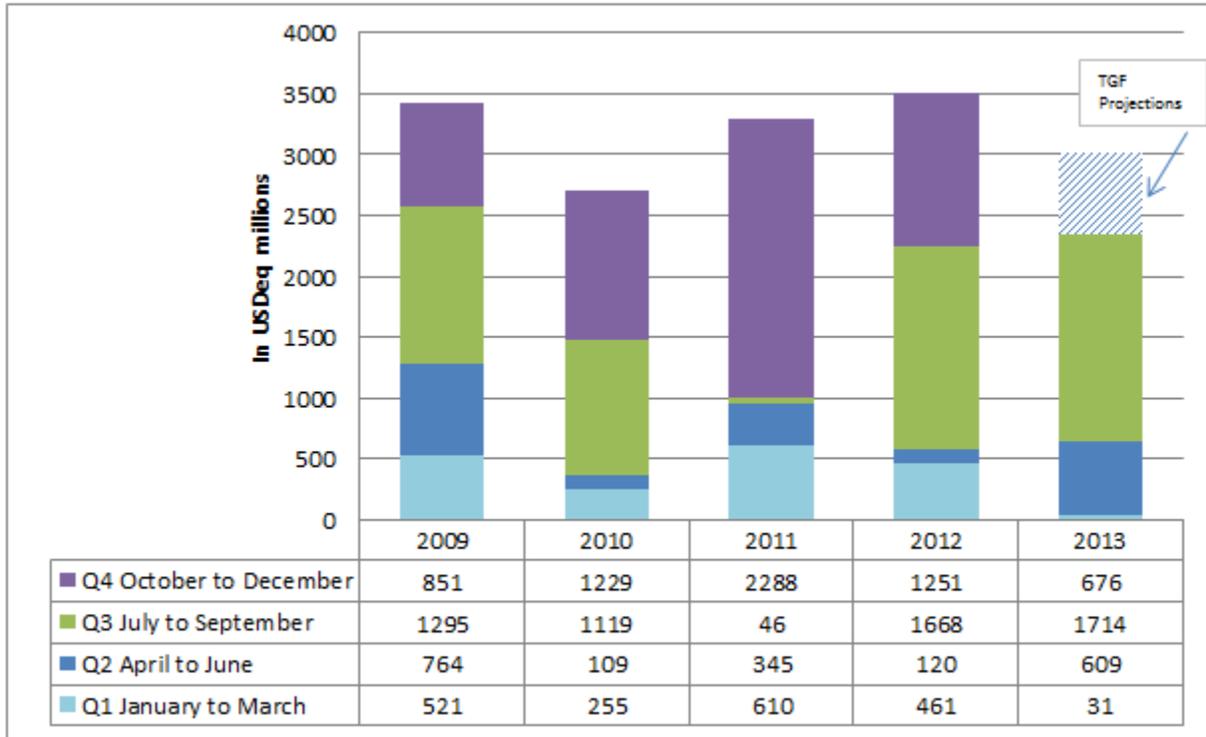
As of September 30, 2013, the Trustee had entered into contribution agreements with 62 donors and received cumulative contributions of USDeq 28.4 billion. Year-to-date contributions to September 30, 2013, were USDeq 2.3 billion, a 5% increase relative to the same period in 2012. The projected contributions¹ by the end of 2013 are expected to be USDeq 3.0 billion. Table 1 summarizes contributions from 2009 to 2013. Annex I provides details of cumulative contributions received from all donors.

Table 1. Contributions to Global Fund Trust Fund 2009-2013(YTD)

¹ Presented by the Global Fund Secretariat at the FOPC meeting in October 2013.



(USD equivalent millions)



Contributions are defined here as **cash contributions received** (including cash received through the encashment of promissory notes and other receivables), plus the outstanding amount of deposited **promissory notes** and **similar obligations**, consistent with the definition of resources available for commitment under the Global Fund’s Comprehensive Funding Policy (CFP).²

Key changes in inflows for these instruments included:

- **Cash contributions.** Cash contributions in the first three quarters of 2013 were USDeq 2.3 billion, representing a marginal increase relative to the same period in 2012.
- **Promissory notes.** Two donors, France and the UK, contribute in the form of promissory notes. As of September 30, 2013, the balance of promissory notes outstanding was USDeq 513 million, comprising of EUR 380 million from France.
- **Similar obligations.** The Bill and Melinda Gates Foundation’s multi-year contribution agreement (MYCA) provides for the payment of USD 750 million in five annual installments of USD 150 million, beginning in 2026, but includes a call provision enabling the Global Fund to draw on these funds if required to ensure liquidity.³

² See www.theglobalfund.org/en/library/documents/

³Deemed by the Finance and Audit Committee as a private sector obligation similar to promissory notes, as provided under the CFP.



3. Investment Strategy and Performance

Investment Management Strategy

Assets held in trust by the World Bank are maintained in a commingled investment portfolio (the “Pool”) for all trust funds administered by the World Bank. The assets in the Pool are managed in accordance with the investment strategy established for all of the trust funds administered by the World Bank.

The Pool is invested across three sub-portfolios (called tranches) that have different investment horizons and enhance returns subject to the over-arching goal of capital preservation. These tranches have the following characteristics:

- **Tranche 0:** cash portfolios in USD and Euros with an investment horizon of less than three months that aim to ensure timely availability of funds to meet the short-term cash flow needs of the Global Fund, and which comprise short-term bank deposits and highly liquid money-market instruments;
- **Tranche 1:** short horizon portfolios in USD and Euros that have an investment horizon of up to one year, and which are invested in highly rated money-market instruments and government securities;
- **Tranche 2:** longer horizon portfolio in USD that has an investment horizon of up to three years, and which is invested primarily in highly rated government, government agency, corporate and asset-backed securities, including mortgage-backed securities.

The Pool is actively managed so that the probability of incurring negative returns in Tranches 1 and 2 is no more than 1% over the applicable investment horizon. For any given trust fund, allocations of the cash balances are made to one or more of the Pool Tranches based on Trust Fund-specific three-year cash projections.

Figure 1: Asset Allocation for Trust Fund Portfolio (as of September 30, 2013)

Assets	USD T0	USD T1	USD T2	EUR T0	EUR T1
Govt Securities	0.00%	49.30%	34.00%	0.00%	35.80%
Mortgage Backed Securities	0.00%	0.00%	26.00%	0.00%	0.00%
Asset Backed Securities	0.00%	4.00%	4.50%	0.00%	0.00%
Agency	0.00%	18.10%	14.10%	0.00%	2.50%
Sov Gtd/Supra	0.00%	10.10%	8.20%	0.00%	4.10%
Money Market/Fin. Inst	100.00%	13.20%	7.30%	100.00%	57.20%
Corporates	0.00%	6.50%	7.20%	0.00%	0.40%
Swap/FX Swap	0.00%	-1.20%	-1.30%	0.00%	0.00%
	100.00%	100.00%	100.00%	100.00%	100.00%

Investment Climate

The performance of the Trust Fund reflects that of the global fixed-income securities markets. Increasing volatility dominated the market in the second quarter of 2013, as interest rates increased from historic lows in 2012. Thus far, much of the volatility in the United States has occurred in longer-maturity investments ahead of expectations that the US Federal Reserve (US Fed) would begin to taper asset purchases to unwind its quantitative easing starting September 2013. However, yields have declined in the third quarter of 2013 as the



US Fed's most recent forward guidance and concerns expressed regarding the strength of the US recovery pushed back expectations of tapering to end of 2013 at the earliest.

Investment portfolio performance highlights

In the year to date September 30, 2013, the Global Fund Trust Fund portfolio earned an investment income of USD equivalent 4.37 million. This represents a decrease in investment income relative to the same periods in 2011 and 2012. Both the trend and volatility of Trust Fund's returns reflect the performance of the broader fixed-income markets, notably a significant rise in market interest rates in May-June 2013 from historically low levels, and their decline in September 2013.

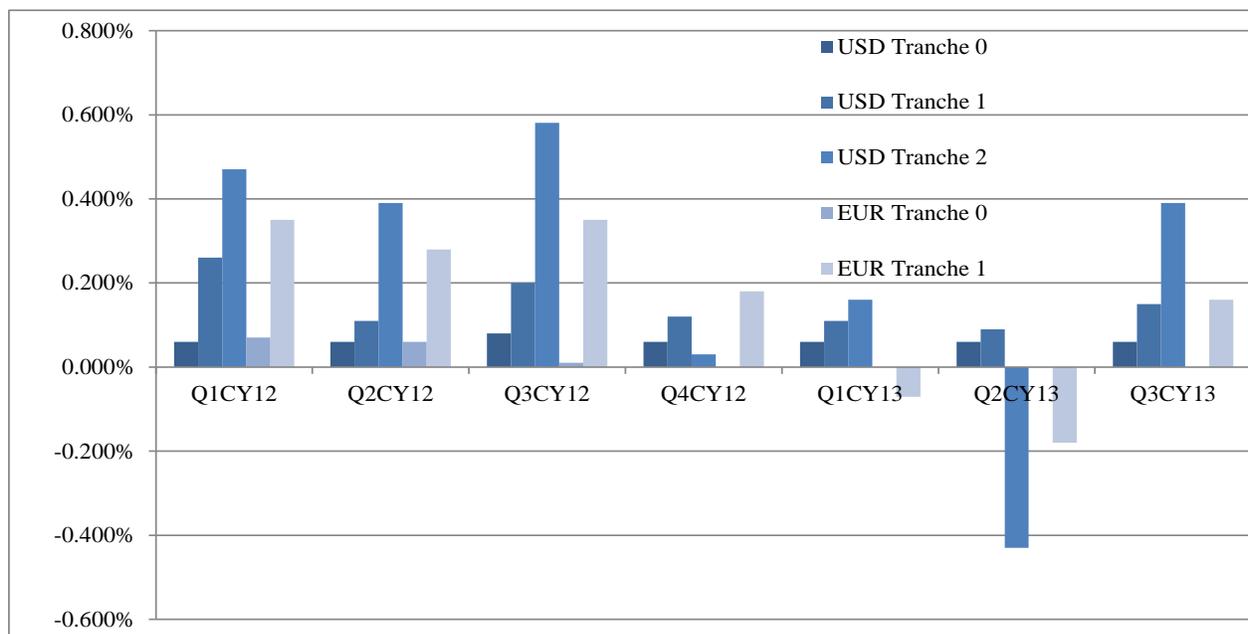
Returns for Tranche 0 (USD and Euro) have been near zero for the past year, reflecting the low rates on the highly-liquid asset classes in which they are invested.

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. Investment returns for Tranche 2 rebounded in the third quarter of 2013.

Returns for Euro Tranche 1 were slightly negative in the year to September 30, 2013, lower than the return for the USD Tranche 1. This is due to yields on high-quality sovereign bonds in Europe increasing more than US Treasury yields.

Figure 2. Quarterly Returns by Tranche

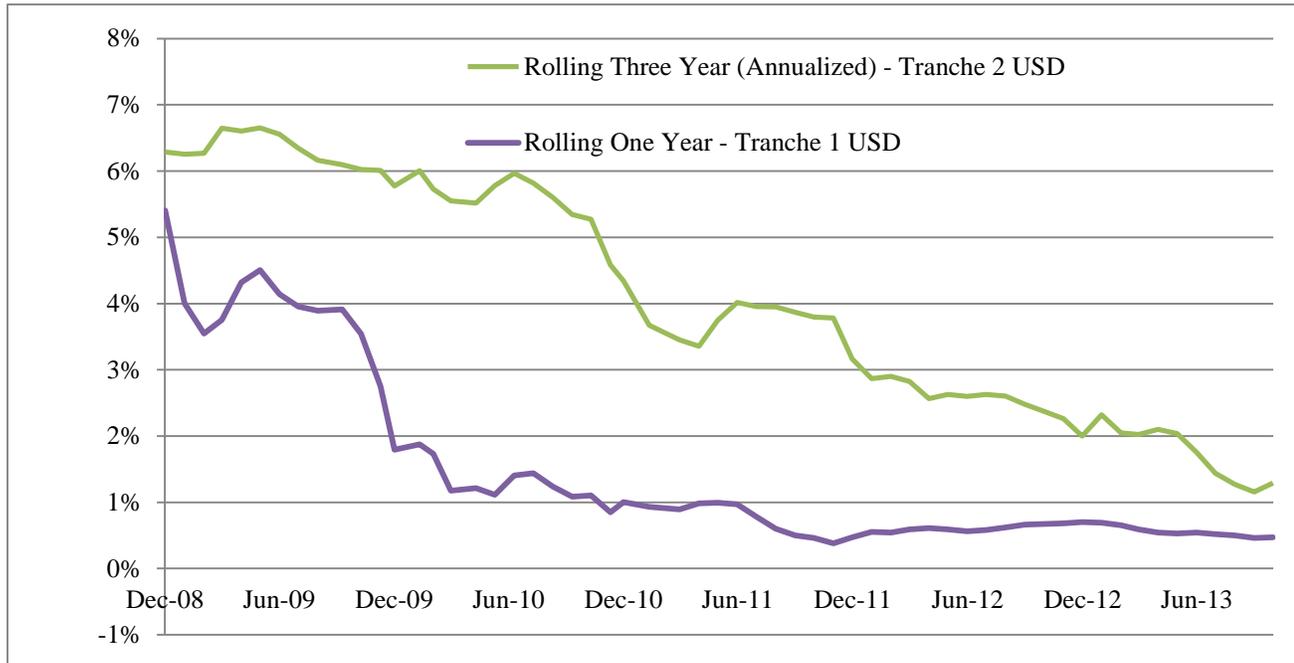


Overall, the Global Fund Trust Fund returns have been driven by the heavy weighting of Tranche 2. Because Tranche 2 contains longer-maturity securities, it may be expected to experience higher volatility in returns over



shorter periods, but has experienced positive returns over its three-year investment horizon. Similarly, Tranche 1 has experienced positive returns over its one-year investment horizon. Figure 3 shows that the rolling returns over the respective investment horizons have been positive. Rolling returns demonstrate the ability to achieve investment goals consistently and over time.

Figure 3. One- and Three-Year Investment Returns



Market Outlook

Despite the positive performance thus far, the investment backdrop remains uncertain and financial market volatility continues to persist. This poses further risks for fixed income investments, as further increases in market interest rates would result in mark-to-market (i.e. book) losses for fixed income returns in general, particularly given the relatively low yields available on the market.

Portfolio positioning in response to changes in market outlook

Based on the current 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 (0.83 years for the US portion and 0.83 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.



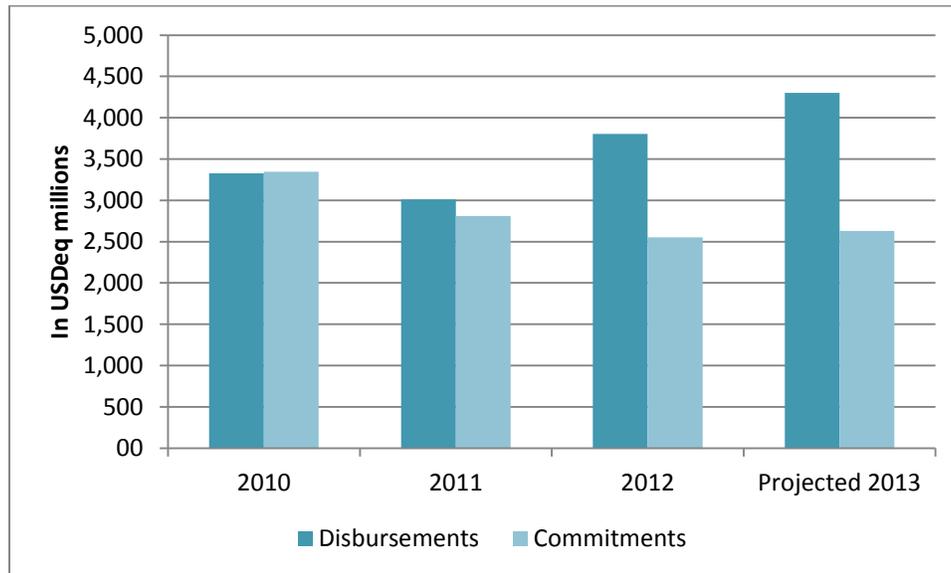
These steps would help to limit the negative impact of potential future interest-rate increases. In the short term, however, total returns for the portfolio are expected to remain modest at best; actual returns will depend on market conditions.

4. Commitments and Disbursements

Commitments. Cumulative commitments to September 30, 2013, amounted to USDeq 25.4 billion. Commitments for the year to date were USDeq 1.5 billion, of which USDeq 1.3 billion was for project grants and USDeq 258 million was for administrative budget. This represents a decrease of 21% relative to the same period in 2013. The projected commitments for 2013 are expected to be USDeq 2.6 billion based on Global Fund Secretariat estimates.

Disbursements. Cumulative disbursements from the Global Fund Trust Fund amounted to USDeq 23.4 billion. The Trustee disbursed a total of USDeq 2.5 billion year-to-date as of September 30, 2013, including USDeq 2.3 billion related to projects and USD 201 million related to administrative expenses. This represents a 25% increase in total disbursements relative to the same period in 2012. The projected total disbursements by the end of 2013 are expected to be USDeq 4.3 billion based on Secretariat estimates.

Figure 4. Global Fund Trust Fund Project Commitments and Disbursements (USD equivalent millions)



The Affordable Medicine Facility for Malaria (AMFm) sub-account was established to support the AMFm operations of the Global Fund. As of September 30, 2013, USDeq 420 million in cumulative contributions had been made to the AMFm sub-account, and it had accrued an additional USDeq 6.5 million of investment income. USD 363 million of commitments had been made against the sub-account, of which USD 357 million had been disbursed. As of September 30, 2013, the balance in the AMFm sub-account was USD 63 million, of which USD 6 million is committed and USD 57 million remains uncommitted.



5. Funds Available

As of September 30, 2013, the Global Fund Trust Fund had the following resources:

- **Total resources amounted to USDeq 6.3 billion**, a decrease of USDeq 0.1 billion from December 31, 2012. Total resources comprise all contributions paid in from donors (including cash, outstanding promissory notes and similar obligations) plus investment income, minus disbursements.
- **Cash Position amounted to USDeq 4.3 billion**, a decrease of USDeq 0.2 billion from December 31, 2012. This reflects **cash** contributions paid-in from donors, plus investment income, minus disbursements.
- **Resources available for commitment amounted to USDeq 4.2 billion**, an increase of USDeq 0.8 billion from December 31, 2012. This reflects total resources (as defined above) minus outstanding commitments.



Annex I – Details of Donor Contributions

	May 31, 2002 (inception) to September 30, 2013		
	for AMFM activities	for Regular GFATM activities	
	<i>Amount held in USD</i>	<i>Amount held in EUR</i>	<i>Amount held in USD</i>
Receipts			
<u>Cash Contributions:</u>			
Andorra			100,000
Australia			369,739,321
Austria			1,075,900
Barbados			100,000
Belgium		3,750,000.00	193,411,264
Brazil			152,355
Brunei Darussalam			149,980
Burkina Faso			75,000
Canada	39,596,763		1,377,963,076
People's Republic of China			24,999,965
Cote d'Ivoire			3,483,629
Denmark			291,112,123
Egypt			4,807,118
European Community		108,000,000	1,405,656,431
Finland			33,200,900
France		1,220,750,000	1,394,484,750
Gates Foundation	25,015,000		650,000,000
Germany		202,000,000	1,706,426,918
Global Fund			245,459,102
Greece			2,150,085
Georgia			20,000
Hungary			54,941
Iceland			1,120,707
India			9,999,910
Indonesia			46,816,033
Ireland		4,000,000	198,613,819
Italy			1,008,260,873
Japan			1,744,921,914
Korea			19,084,169 c/
Kuwait			2,999,965
Latvia			10,000
Liechtenstein			986,813
Luxembourg			33,950,270
Malaysia			132,216
Mexico			199,710
Monaco			132,000
Namibia			500,000
Netherlands			739,035,558
New Zealand			2,840,840
Nigeria			19,044,210
Norway			580,486,781
Pakistan			26,374,033
Poland			150,000
Portugal			15,533,866
Romania		175,000	569,545
Russian Federation			316,999,995
Rwanda			1,000,000
Saudi Arabia			53,000,000
Singapore			1,000,000
Slovenia			253,869
South Africa			11,801,559
Spain		144,077,593	507,519,247
Sweden			840,073,940
Switzerland			75,024,428
Thailand			9,999,725
Tunisia			2,000,000
Uganda			1,499,934
United Kingdom	168,732,960		1,874,053,216
United Nations Foundation			73,789,348
United States			8,531,103,784
World Health Organization	180,000,000		38,897,264
Zimbabwe			158,462
Total cash contributions	413,344,723	1,682,752,593	24,494,560,861
<u>Promissory Notes and Similar Obligations (balance):</u>			
France		379,854,130	
Gates Foundation			750,000,000
Total contributions	413,344,723	2,062,606,723	25,244,560,861