



To: IFFIm Board of Directors

From: The World Bank, as IFFIm Treasury Manager

Subject: **Treasury Manager Report – Second Quarter of 2015**

The Treasury Manager's quarterly report on the financial management activities of IFFIm for the second quarter of 2015 is attached. Questions concerning this report may be referred to François Lefebvre (flefevre@worldbank.org) or George Richardson (grichardson@worldbank.org).

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IFFIm: Treasury Manager Report Second Quarter of 2015

I. International Capital Market Environment

During the quarter, the Bank of England (BoE) downgraded its outlook for both growth and potential growth. The inflation outlook was unchanged from February – BoE still expects inflation to return to target in two years. As the growth outlook downgrade merely brings the BoE more in line with market expectations, hence this is deemed neutral in terms of the policy rate path against the one implied by markets.

In Europe, Greek crisis evolved dramatically at the end of the quarter. Markets initially reacted to the Greek news with some flight-to-quality bids. However, they quickly gave way to bearish sentiments in rates markets and led to the decline of Bund yields and the widening of peripheral spreads.

In the US, The Federal Open Market was more dovish than markets expected. Even though the participants still see a 2015 lift-off as likely; they are more cautious about the pace of the hiking cycle.

II. Funding Activities

a. Issuance of Notes

There was no new bond issuance for IFFIm for the second quarter of 2015. Since IFFIm's inception, the Treasury Manager has arranged for IFFIm to issue a total of USDeq 5 billion through 30 transactions in seven currencies: AUD, BRL, GBP, NZD, USD, TRY and ZAR.

b. Funding Strategy

The successful completion of the inaugural USD Sukuk floating rate note in November 2014 fulfilled IFFIm's funding requirement until September 2015. The World Bank Treasury is planning for the rest of 2015 by assessing various alternatives and determining the best approach.

Table 1 shows Supranational/Non-U.S. Agency benchmark issuance activities during the second quarter of 2015, as well as indicative benchmark issuance costs for IFFIm as of June 30, 2015 for illustration purposes.

**Table 1 - Supranational/Non-U.S. Agency Benchmark Issuance
Second Quarter of 2015**

USD

Issuer	Amount (USD billion)	Issue Date	Maturity Date	Maturity (years)	All-in Spread (bps)
Inter-American Development Bank – IADB	3.0	4/8/2015	4/14/2022	7	\$L + 3.2
European Investment Bank - EIB	5.0	4/15/2015	6/20/2025	10	\$L + 2.6
Asian Development Bank – AsDB	2.0	4/21/2015	7/18/17	2	\$L - 9
International Bank for Reconstruction & Development – World Bank	5.0	4/22/2015	6/15/2018	3	\$L - 10
European Investment Bank - EIB	4.0	5/19/2015	8/15/2018	3	\$L - 7
Eurfima	1.0	5/21/2015	5/29/2020	5	\$L + 19
Asian Development Bank – AsDB	2.0	5/27/2015	6/5/2018	3	\$L - 8
Inter-American Development Bank – IADB	2.25	6/9/2015	6/16/2020	5	\$L + 1
International Bank for Reconstruction & Development – World Bank	3.5	6/16/2015	11/15/2017	2.5	\$L - 10
<i>IFFIm Indications as at 6/30/2015*</i>					
<i>IFFIm</i>	<i>1.0 min</i>			3	<i>\$LIBOR + 16</i>
<i>IFFIm</i>	<i>1.0 min</i>			5	<i>\$LIBOR + 22</i>
<i>IFFIm</i>	<i>1.0 min</i>			10	<i>\$LIBOR + 45</i>

EUR

Issuer	Amount (EUR billion)	Issue Date	Maturity Date	Maturity (years)	All-in Spread	\$LIBOR eq spread (bps)
European Financial Stability Facility (EFSF)	3.0	4/21/2015	4/28/2025	10	EURIBOR – 22	\$L + 20.7
European Financial Stability Facility (EFSF)	2.0	5/13/2015	11/18/2017	2.5	EURIBOR – 16	\$L + 22.9
European Financial Stability Facility (EFSF)	1.5	5/27/2015	11/4/2019	4.5	EURIBOR – 13	\$L + 29.8
Council of Europe Development Bank - CEB	1.0	6/2/2015	6/9/2025	10	EURIBOR – 16	\$L + 22
<i>IFFIm Indications as at 6/30/2015*</i>						
<i>IFFIm</i>	<i>1.0 min</i>			3	EURIBOR – 7	<i>\$L + 30</i>
<i>IFFIm</i>	<i>1.0 min</i>			5	EURIBOR – 3	<i>\$L + 36</i>
<i>IFFIm</i>	<i>1.0 min</i>			10	EURIBOR + 5	<i>\$L + 45</i>

(*) Do not include World Bank swap intermediation charge.

c. Marketing and Investor Outreach

S&P put the United Kingdom on a negative rating outlook on June 12, 2015 (current S&P rating AAA/Neg). However, as IFFIm’s rating is already capped at France’s rating (AA/Neg), no impact on IFFIm’s rating is anticipated in the event of S&P downgrading the United Kingdom to AA+.

Table 2 - IFFIm Credit Ratings as of April 2, 2015

	Rating	Outlook	Latest Report / Update
Fitch	AA	Stable	16-Dec-2014
Moody's	Aa1	Stable	28-Aug-2014
S&P	AA	Negative	23-Dec-2014

Investor and media outreach: The IFFIm Nov-2014 sukuk won two more awards in June 2015: the Financial Times / IFC “Achievement in Transformational Finance Award” and The Asset (an Asian based financial publication) “Triple A Islamic Finance Award for Best Sukuk for Social Good (2015)”.¹

III. Investment Activities and Performance

At the end of the quarter, IFFIm’s investment portfolio was USD 1.14 billion. The portfolio is divided into two tranches: Operational and Stable. The Operational tranche (USD 12.5 million), with funds mainly invested in overnight and term deposits, outperformed the overnight cash benchmark for the quarter by 1 basis point. The Stable tranche (USD 1.13 billion), with funds invested in high-grade fixed-income instruments,² outperformed its benchmark by 11 basis points during the second quarter of 2015.

Table 3 - IFFIm Investment Activity and Performance

Benchmark Description	Current Benchmark Effective Date	30-Jun-15 Size (USD)	Q4FY15		Client FY to date ^{1/}		Rolling One-Year		Inception to Date ^{1/}	
			Non-annualized Portfolio Return (%)	Excess Return (bps)	Non-annualized Portfolio Return (%)	Excess Return (bps)	Portfolio Return (%)	Excess Return (bps)	Annualized Portfolio Return (%)	Excess Return (bps)
IFFIm		1,143,272,597	0.14	10	0.24	18	0.40	28	1.55	30
Operational Cash	DB Fed Funds Effective Rate Index 9/1/08	12,409,902	0.04	1	0.06	0	0.21	10	1.23	21
Stable Cash	US LIBID 3-Mos Average 11/14/06	1,130,862,695	0.14	11	0.25	18	0.41	29	1.58	30

^{1/} Client Fiscal Year: January - December. Inception November 6, 2006

Note: On February 21, 2012, IFFIm withdrew \$430 million and on March 27, 2013, \$181 million was withdrawn from the operational cash portfolio. Additional funding of \$703 million was received on July 31, 2013.

IV. Implementation of IFFIm’s Risk Management Strategy

Under its liquidity policy, IFFIm maintains a minimum level of liquid assets equivalent to its cumulative contracted debt service payments for the next 12-month period. IFFIm’s primary liabilities are the bonds that it has issued. IFFIm’s balance sheet is managed to ensure that, at a very high confidence level, its multi-currency, long-term payment asset base will cover its liabilities.

a. Hedging Donor Grants

In the second quarter of 2015, no new pledges were received. As of June 30, 2015, the total swapped outstanding pledges accrued to USD 2,527 million.

¹ The Nov-2014 Sukuk has now won five awards including the FT/IFC and the Asset awards won this quarter. Previous awards are: (1) Islamic Finance News - Social Impact Deal of the Year (Jan 2015), (2) EMEA Finance - Best Supranational Sukuk for 2015 (Feb 2015); and (3) Euromoney - inaugural award for Innovation in Islamic Finance 2015 (May 2015).

² The portfolio consists of i) money market and commercial bank floating rate notes (3%); ii) AAA-rated asset backed securities (ABS) and government-guaranteed ABS (9%) and iii) asset swapped government (developed and emerging), agency and high grade credits (88%).

b. Hedging IFFIm Bonds

No hedging transaction was done in the second quarter of 2015.

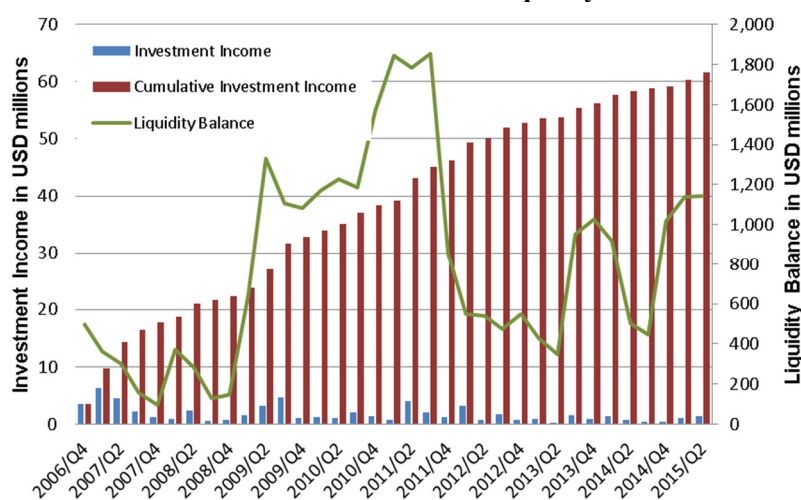
V. Disbursements and Available Funding Balance

IFFIm's total fund balance increased from USD 1,139.7 million as of March 31, 2015 to USD 1,144.1 million as of June 30, 2015³. The increase was due to the contributions from Australia, Sweden and the UK.

Table 4 - Summary of Cash Flows for IFFIm⁴

In USD millions	
Beginning balance, March 31, 2015	1,139.7
Inflows from bonds (including related swaps)	0.0
Inflows from donors (including related swaps)	59.1
Investment income	1.3
Total inflows	60.4
Disbursement for approved programs	-
Debt service	0.3
Bond repayment	55.2
Administrative costs	0.5
Total outflows	55.9
Ending balance, June 30, 2015	1,144.1

Chart 1 - Investment income and liquidity balance

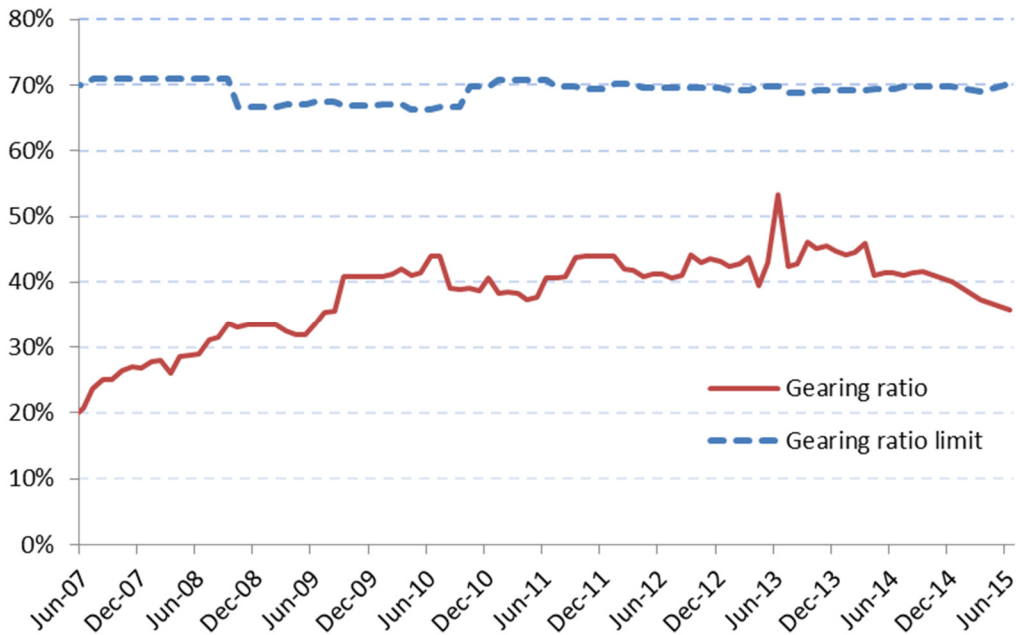


The gearing ratio limit approved by the IFFIm Board for the second quarter of 2015 was 70.2%. The actual gearing ratio decreased from 37.3% as of end-March 2015 to 35.8% as of end-June 2015.

³ In addition to IFFIm's investment portfolio as mentioned in Paragraph III, the total fund balance includes the outstanding balances in IFFIm's bank accounts at the end of first quarter of 2015.

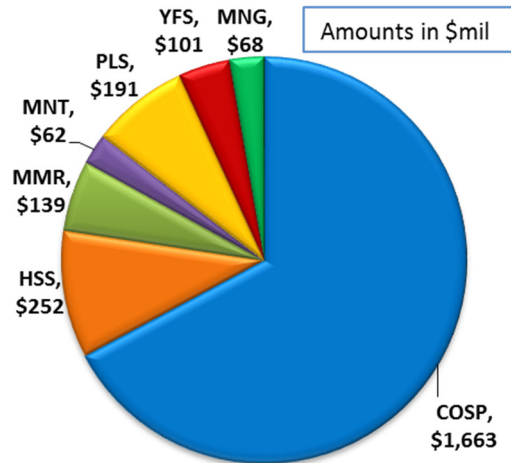
⁴ The figures provided in this table may differ from those that will appear in IFFIm's financial statements.

Chart 2 - Gearing Ratio and Gearing Ratio Limit



Available funding balance for approved programs. As of June 30, 2015, IFFIm-approved programs totaled USD 2.9 billion. IFFIm made no program disbursements to GAVI during the first semester of 2015. Cumulative program disbursements from IFFIm to GAVI since inception to June 30, 2015 amounted to USD 2.5 billion. The breakdown of these transfers by program is summarized below.

**Chart 3 - Transfers from IFFIm to GAVI Alliance
Inception to June 30, 2015 - USD 2.5 billion**



*YFS - Yellow Fever Stockpile; MMR - Measles, Mumps & Rubella; MNT-Maternal & Neonatal Campaign; MNG - Meningitis
PLS - Polio Stockpile Campaign; HSS - Health Systems Strengthening; COSP - Core GAVI Immunizations*

VI. Treasury Manager's costs update

The actual Treasury Manager's costs for the second quarter of 2015 amounted to USD 621,274. Compared with 1/4th of the billed amount, the actual costs were USD 44,250 above. The detailed breakdown of the costs by categories can be found in table 5.

Table 5 - Comparison of Treasury Manager's actual costs vs. billed estimates, Q2 CY2015
Amounts in USD

Client: International Finance Facility for Immunization					
Billing period: 2015 Q2 Actuals					
Services	Staff Costs	Travel	Swap Fees/ Investment Fees	Paid Third Party Costs	Final Total
A. Financial Service Cost					260,491
• Bond Issuance – market research, design, execution	14,695	9,607			24,302
• Investment management fee (3.5 bps on average liquidity)			102,958		102,958
• Financial risk management (staff time and swaps fees)	5,131		128,100		133,231
B. Treasury Manager Administration and Support Costs					360,783
• Donor Relations, Management of Donor Pledges and Payments	28,800	2,713			31,513
• Fund Management (commitments, disbursements, programme tracking)	47,651	2,713			50,364
• Ratings maintenance including gearing ratio analysis, liquidity	107,477	-			107,477
• Accounting and Reporting	116,239	-			116,239
• IT: IFFIm systems development and maintenance	-	-			-
• Legal	23,241				23,241
• Preparation and reporting for IFFIm Board Meetings	31,950				31,950
C. Third Party Costs (invoiced directly through TM)					-
• Ratings maintenance consultants				-	-
• IT software development				-	-
Total invoice	375,183	15,032	231,058	-	621,274
Client: International Finance Facility for Immunization					
Billing period: 2015 Q2 Estimates billed					
Services	Staff Costs	Travel	Swap Fees/ Investment Fees	Paid Third Party Costs	Final Total
A. Financial Service Cost					288,757
• Bond Issuance – market research, design, execution	62,325	10,000	-	-	72,325
• Investment management fee (3.5 bps on average liquidity)	-	-	78,750	-	78,750
• Financial risk management (staff time and swaps fees)	3,933	-	133,750	-	137,683
B. Treasury Manager Administration and Support Costs					288,267
• Donor Relations, Management of Donor Pledges and Payments	22,856	1,250	-	-	24,106
• Fund Management (commitments, disbursements, programme tracking)	25,506	1,250	-	-	26,756
• Ratings maintenance including gearing ratio analysis, liquidity	104,602	-	-	-	104,602
• Accounting and Reporting	69,692	3,250	-	-	72,942
• IT: IFFIm systems development and maintenance	-	-	-	-	-
• Legal	26,391	-	-	-	26,391
• Preparation and reporting for IFFIm Board Meetings	33,469	-	-	-	33,469
C. Third Party Costs (invoiced directly through TM)	0	0	0	0	-
• Ratings maintenance consultants	-	-	-	-	-
• IT software development	-	-	-	-	-
Total invoice	348,774	15,750	212,500	-	577,024
Client: International Finance Facility for Immunization					
Billing period: 2015 Q2 Actuals vs. Estimates billed					
Services	Staff Costs	Travel	Swap Fees/ Investment Fees	Paid Third Party Costs	Final Total
A. Financial Service Cost					(28,267)
• Bond Issuance – market research, design, execution	(47,630)	(393)	-	-	(48,023)
• Investment management fee (3.5 bps on average liquidity)	-	-	24,208	-	24,208
• Financial risk management (staff time and swaps fees)	1,199	-	(5,650)	-	(4,451)
B. Treasury Manager Administration and Support Costs					72,516
• Donor Relations, Management of Donor Pledges and Payments	5,944	1,463	-	-	7,406
• Fund Management (commitments, disbursements, programme tracking)	22,145	1,463	-	-	23,607
• Ratings maintenance including gearing ratio analysis, liquidity	2,875	-	-	-	2,875
• Accounting and Reporting	46,547	(3,250)	-	-	43,297
• IT: IFFIm systems development and maintenance	-	-	-	-	-
• Legal	(3,151)	-	-	-	(3,151)
• Preparation and reporting for IFFIm Board Meetings	(1,519)	-	-	-	(1,519)
C. Third Party Costs (invoiced directly through TM)	0	0	0	0	-
• Ratings maintenance consultants	-	-	-	-	-
• IT software development	-	-	-	-	-
Total invoice	26,409	(718)	18,558	-	44,250