



Pilot Auction Facility Trust Fund

Financial Report

Prepared by the Trustee

As of December 31, 2021



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Introduction

The Pilot Auction Facility (PAF) was initiated as a result of a report from the Methane Finance Study Group¹, an international group of experts convened at the request of the G8. It is an innovative climate finance mechanism that pioneers the use of auctions to allocate scarce public resources and leverage private sector financing to stimulate investment in projects that reduce greenhouse gas emissions at low cost by piloting the auction of tradeable put options which would guarantee a floor price for qualifying emission credits.

The PAF Trust Fund was established in December 2014. This report covers the financial status of the PAF Trust Fund, and is produced by the Trustee in accordance with the Trustee's role in the PAF Framework, as set forth under Section E, which states:

“The Trustee will prepare annual financial reports of the PAF Trust Fund.”

In addition, Section 6 of the Standard Provisions in the Contribution Agreement/Arrangement states as follows:

“The Trustee will maintain separate records and ledger accounts in respect of the funds deposited in the Trust Fund and transfers made therefrom. The Trustee will report to the Participants Committee annually on the financial status of the Trust Fund including information on the status of Contributions, investment income, commitments, transfers and funds available for allocation of funding by the Participants Committee.”

¹ “Methane Finance Study Group Report, Using Pay-for-Performance Mechanism to Finance Methane Abatement”, Methane Finance Study Group. 2013.



PAF Trust Fund Financial Summary as of December 31, 2021

Pledges and Contributions:

A pledge represents a contributor's expression of intent to make a contribution. Pledges are converted to Contributions by way of a countersigned Contribution Agreement/Arrangement.

As of December 31, 2021, pledges and contributions to the PAF Trust Fund totaled USD 77.81 million. Of this amount, USD 77.81 million has been deposited into the PAF Trust Fund, USD 53.40 million in the PAF window, and USD 24.41 million in the Nitric Acid Climate Action Group (NACAG) window.

Investment Income:

As of December 31, 2021, the PAF Trust Fund earned investment income of approximately USD 4.33 million on the liquid balances in the Trust Fund.

Funding Approvals:

As of December 31, 2021, the PAF Participants Committee had approved funding from the PAF Trust Fund totaling USD 50.26 million, in respect of the bond redemptions for four auctions and administrative budgets of the PAF to support the activities of the PAF Secretariat and Trustee.

Cash Transfers:

The Trustee has transferred USD 50.26 million up to December 31, 2021, including USD 40.37 million related to bond redemption for four auctions.

Funds Held in Trust:

Funds Held in Trust² reflect contributions paid-in from contributors, investment income, and other income less cash transfers. Funds Held in Trust as of December 31, 2021 amounted to USD 31.88 million.

² Funds Held in Trust represents balance of cash, investments and unencashed promissory notes (if any) as of the reporting date.

1. PAF Trust Fund Summary – Inception through December 31, 2021

In USD millions

	Total	% of Total
<u>Donor Pledges and Contributions</u>		
Contributions	77.81	100.0%
Pledges	-	0.0%
Total Pledges and Contributions	77.81	100.0%

<u>Cumulative Resources</u>		
<u>Resources received</u>		
Cash Receipts	77.81	94.5%
Investment Income earned	4.33	5.3%
Other Income a/	0.19	0.2%
Total Resources Received	82.33	100.0%
<u>Resources not yet received</u>		
Contributions not yet received	-	0.0%
Pledges	-	0.0%
Total resources not yet received	-	0.0%
Total Potential Resources (A) (in USD millions)	82.33	100.0%

<u>Cumulative Funding Decisions</u>		
Auctions	40.37	80.3%
Administrative Budget	9.88	19.7%
Total Funding Decisions Net of Cancellations (B)	50.26	100.0%
Total Potential Resources Net of Funding Decisions (A) - (B)	32.07	
Commitment Fee to IBRD a/	0.19	
Total Potential Resources Net of Funding Decisions and Commitment Fee to IBRD a/ b/	31.88	

<u>Funds Available</u>		
Funds Held in Trust with no restrictions	31.88	
Approved Amounts Pending Cash Transfers	-	
Total Funds Available to Support Participants Committee Decisions	31.88	

Note: Sub-totals may not add up to due to rounding

a/ Represents commitment fee based on outstanding unpaid amount of Sweden's contribution



2. Pledges and Contributions as of December 31, 2021

In millions

Contributor	Curr	Pledge in Currency of Contribution	Effective (or signed) Contribution			Receipts in Currency of Contribution		Receipts in USD a/
			PAF	NACAG	Total	PAF	NACAG	
Climate Cent Foundation	USD	2.50	2.50	-	2.50	2.50	-	2.50
Germany	EUR	35.00	15.00	20.00	35.00	15.00	20.00	42.81
Sweden	USD	15.00	15.00	-	15.00	15.00	-	15.00
Switzerland	USD	2.50	2.50	-	2.50	2.50	-	2.50
United States	USD	15.00	15.00	-	15.00	15.00	-	15.00
Total Contributions Received								77.81

a/ Represents actual USD receipts

Note: totals may not add up to due to rounding

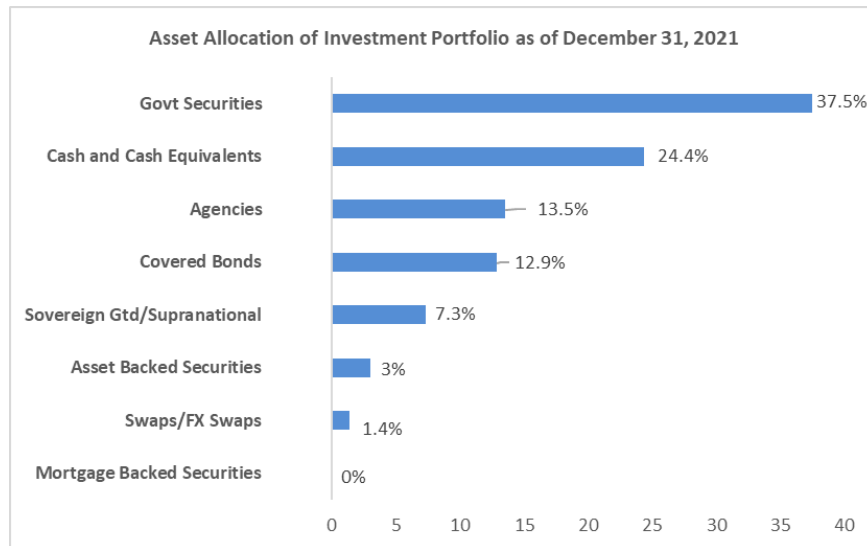


3. Asset Mix and Investment Income

ASSET MIX

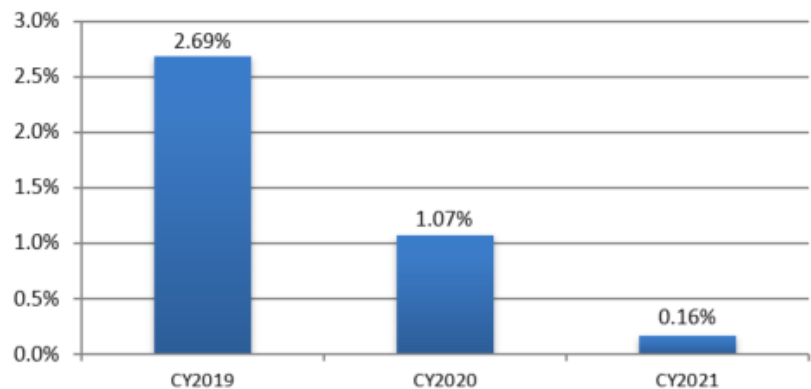
Funds held in trust by the World Bank, as Trustee, are maintained in a commingled investment portfolio (the “Pool”) for all trust funds administered by the World Bank. Funds are managed such that the expected maximum loss, as measured by the CVaR, in the worst 1% of cases will not exceed 0.25% at the portfolio’s investment horizon.

The portfolio allocation by asset class has the largest allocations to government securities and money market instruments.



INVESTMENT RETURNS

The PAF Trust Fund liquid portfolio earned approximately USD 4.33 million in investment income since inception. The portfolio returns during calendar year 2021 was 0.16%.





ESG SUMMARY REPORT – PILOT AUCTION FACILITY INVESTMENT PORTFOLIO

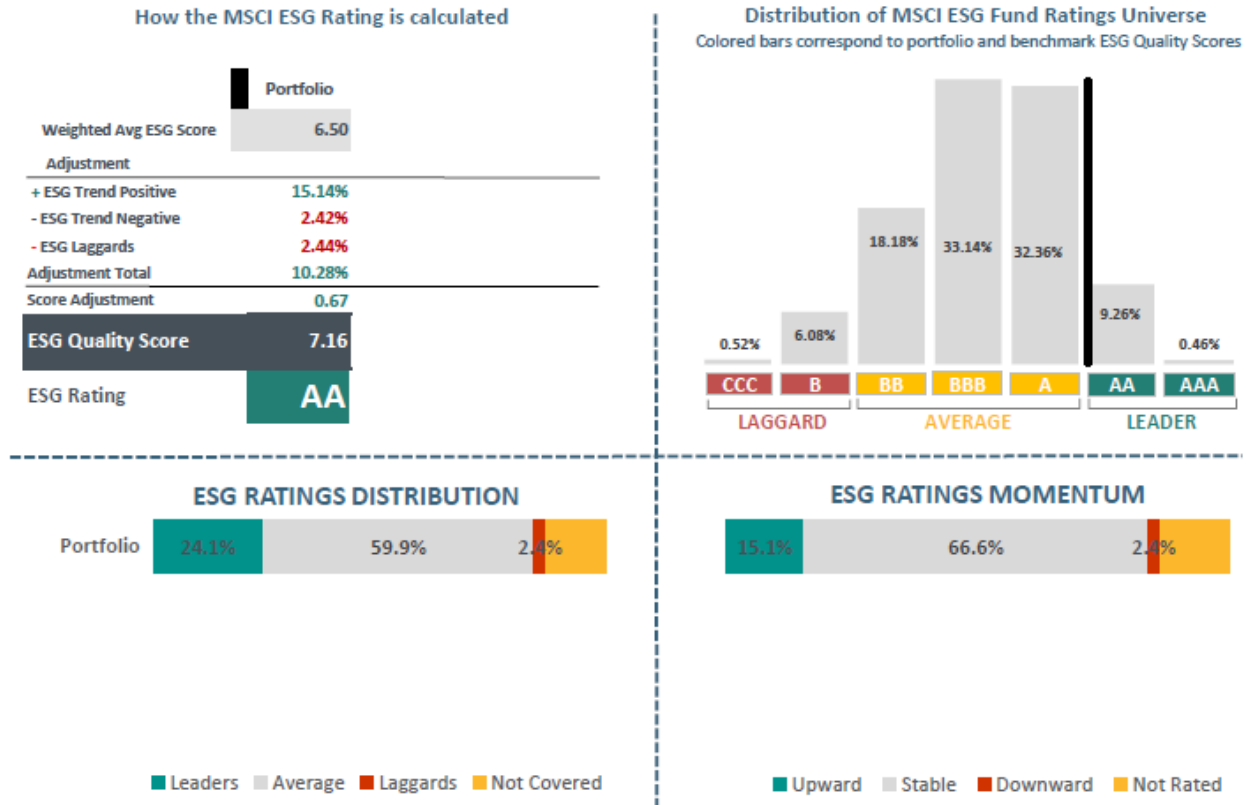
As per the investment management strategy implemented by the World Bank, the funds held in trust benefit from the approach to Sustainable and Responsible Investment (SRI), which considers and incorporates Environmental, Social, and Governance (ESG) factors into Trustee’s investment processes. The implementation of ESG Integration falls within the purview of existing authorizations by the World Bank Board. Based on the endorsement by the World Bank management, starting from July 2019, the Trustee has applied ESG Integration as the default SRI approach for all portfolios managed by the World Bank, including for the Pilot Auction Facility assets.

Considering and incorporating ESG factors into investment processes should, all things being equal, lead to portfolios that have stronger ESG profiles compared to portfolios that do not explicitly consider these ESG issues. ESG Integration has become part of the existing investment processes and is intended to help fulfil the existing investment objectives. The application of ESG Integration as part of the investment process would not involve any changes in the current investment objectives or risk limits for the Pilot Auction Facility portfolio.

The Pilot Auction Facility investment portfolio is primarily comprised of short-term high-grade fixed-income securities (sovereign, supranational and agency securities and bank deposits), and as of December 31, 2021, the portfolio has an ESG Quality Score* of 7.16 and an ESG Rating* of AA. Based on its ESG positioning in the MSCI ESG Fund Ratings Universe (upper right of Figure 1), which is deemed to be the more consistent reference indicator, Pilot Auction Facility’s investment portfolio falls in the top decile of the ratings universe. This reflects high capability of Pilot Auction Facility portfolio’s holdings in terms of managing key medium to long term risks and opportunities arising from Environmental, Social and Governance factors.



Figure 1: MSCI ESG Portfolio Summary – Pilot Auction Facility Trust Fund



**Note:* ESG Quality Score is based on MSCI ESG Ratings and measured on a scale of 0 to 10 (worst to best) following a rule-based methodology. ESG Ratings Momentum represents the percentage of a portfolio's market value coming from holdings that have had an ESG Ratings upgrade, and those with a downgrade, since their previous ESG Rating assessment. The ESG Quality Score is calculated as a weighted average of ESG scores of individual holdings adjusted by ESG Ratings Momentum and ESG laggards (if any). The weight applied to the individual ESG scores is determined by the portfolio weight of individual holdings as of the reporting date. Based on the above, the ESG Quality Score, which is subject to potential skewing effect from any factor in the calculation, could slightly vary between different reporting dates along with changes in individual holdings and their portfolio weights as well as changes in ESG Ratings Momentum. Please see details on MSCI ESG Ratings Methodology from: <https://www.msci.com/documents/1296102/4769829/MSCI+ESG+Ratings+Methodology+-+Exec+Summary+Dec+2020.pdf/15e36bed-bba2-1038-6fa0-2cf52a0c04d6?t=1608110671584>.



4. Cumulative Funding Decisions as of December 31, 2021

In USD millions

<u>Auctions a/</u>	<u>PAF</u>	<u>NACAG</u>
First Auction	16.42	-
Second Auction	11.00	-
Third Auction	11.01	-
Fourth Auction	1.94	-
	40.37	-
<u>Administrative Budget</u>		
Secretariat	8.48	-
Trustee	1.40	-
	9.88	-
Total Funding Decisions	50.26	-

a/ Represents actual bond redemption amounts transferred from the PAF Trust Fund through December 2021



5. Funds Available as of December 31, 2021

In USD millions

	PAF	NACAG
1. Cumulative Receipts	56.35	25.98
a. Cash receipts from Contributors	53.40	24.41
b. Investment Income earned	2.76	1.57
c. Other Income a/	0.19	-
2. Cumulative Cash Transfers	50.45	-
a. Bond redemption	40.37	-
b. Administrative Budget	9.88	-
c. Commitment Fee to IBRD a/	0.19	-
3. Funds Held in Trust (3 = 1 - 2)	5.90	25.98
4. Funding Decisions Pending Cash Transfer	-	-
5. Funds available to support Participants Committee decisions (5 = 3 - 4)	<u>5.90</u>	<u>25.98</u>

a/ Represents commitment fee based on outstanding unpaid amount of Sweden's contribution

Note: Sub-totals may not add up to due to rounding