

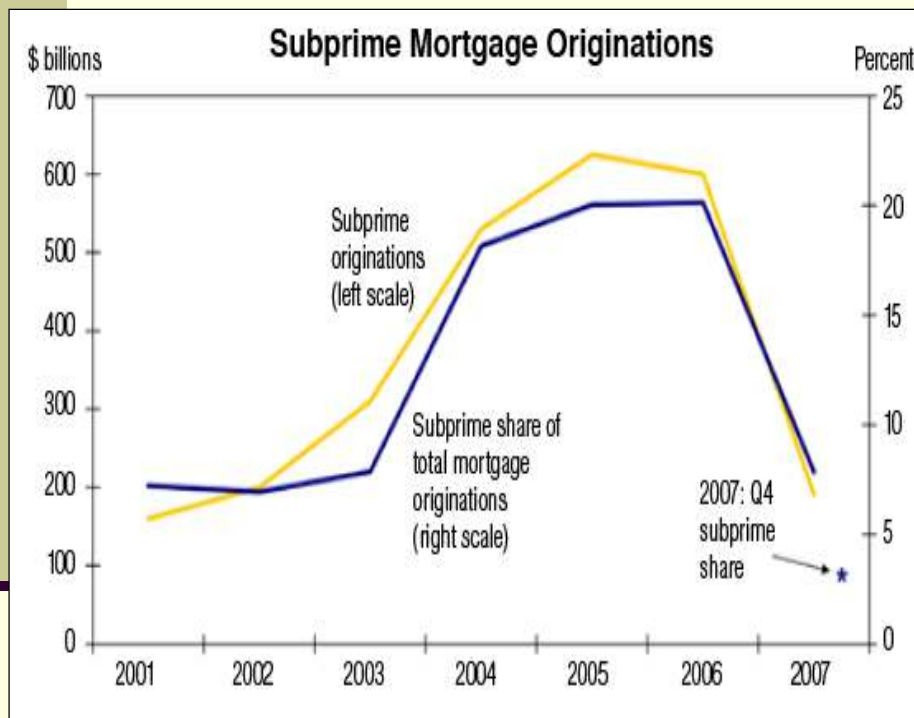
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# **Financial Crisis and the Global Fund's Investments**

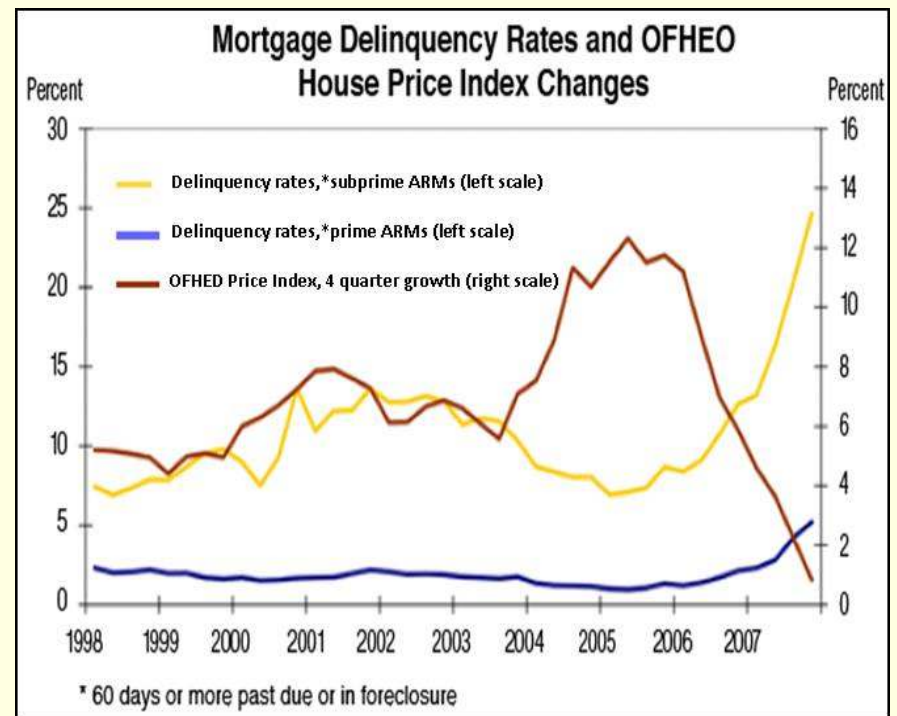
*Presentation to the Global Fund Board  
November 7, 2008*

**Trustee, World Bank**

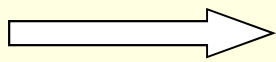
# Bubble Bursts on Subprime Market



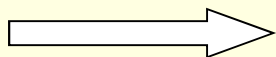
Source: Inside Mortgage Finance



Source: Office of Federal Housing Enterprise Oversight Mortgage Bankers Association, as reported by the Federal Reserve Bank of San Francisco



***Huge financial institution losses***



***Banks deleverage***

# Financial Markets in Turmoil: Events

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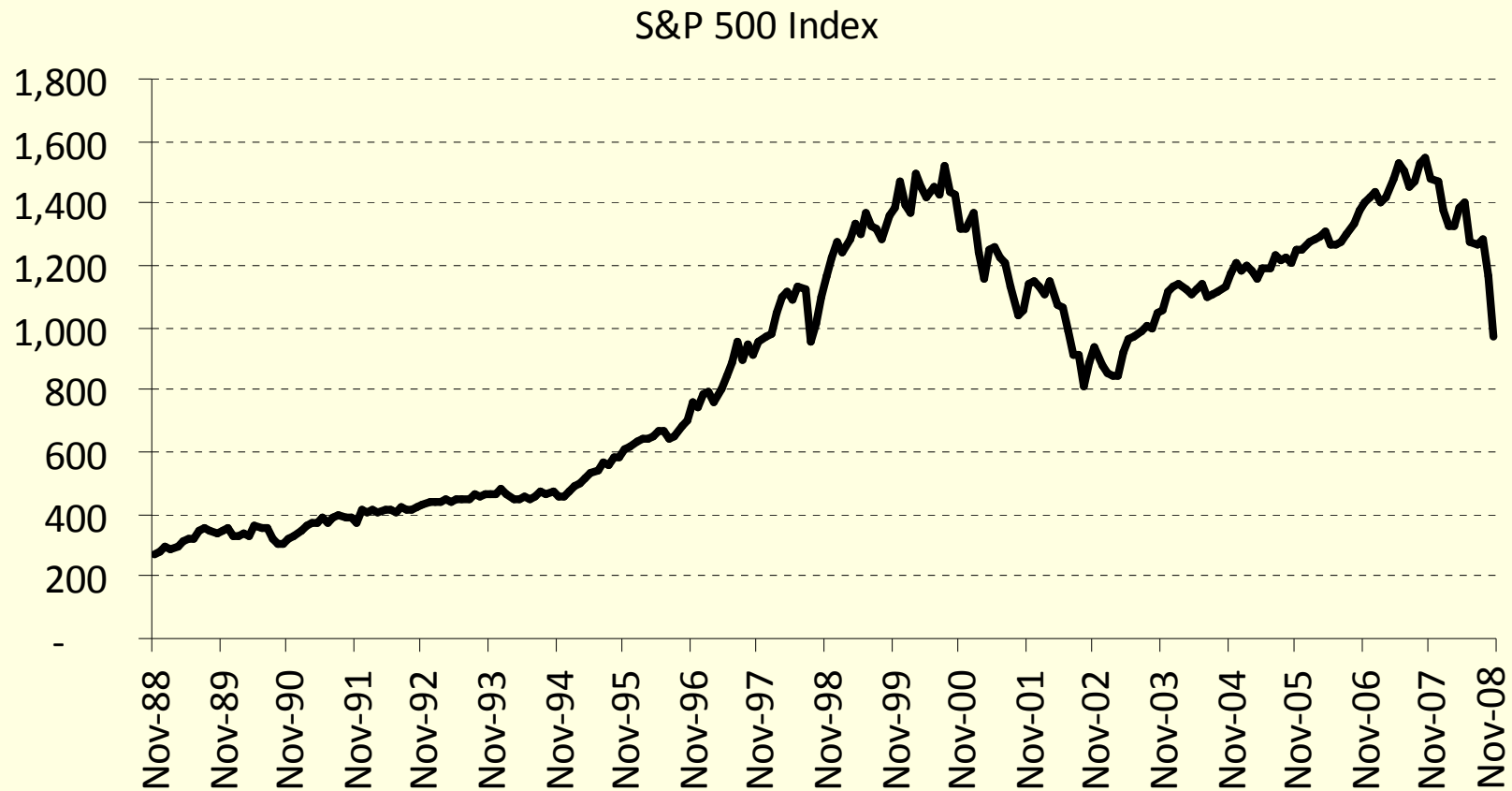
- **Bear Stearns** insolvent, *JP Morgan buys it with support from the US Federal Reserve*. **[March 16]**
- US Government places **Fannie Mae & Freddie Mac** under conservatorship. **[September 7 ]**
- **Lehman** in bankruptcy, *lots of toxic assets with no buyers*; **Merrill Lynch** folded into Bank of America to avoid a run. **[September 14]**

## ***Further erosion of confidence.***

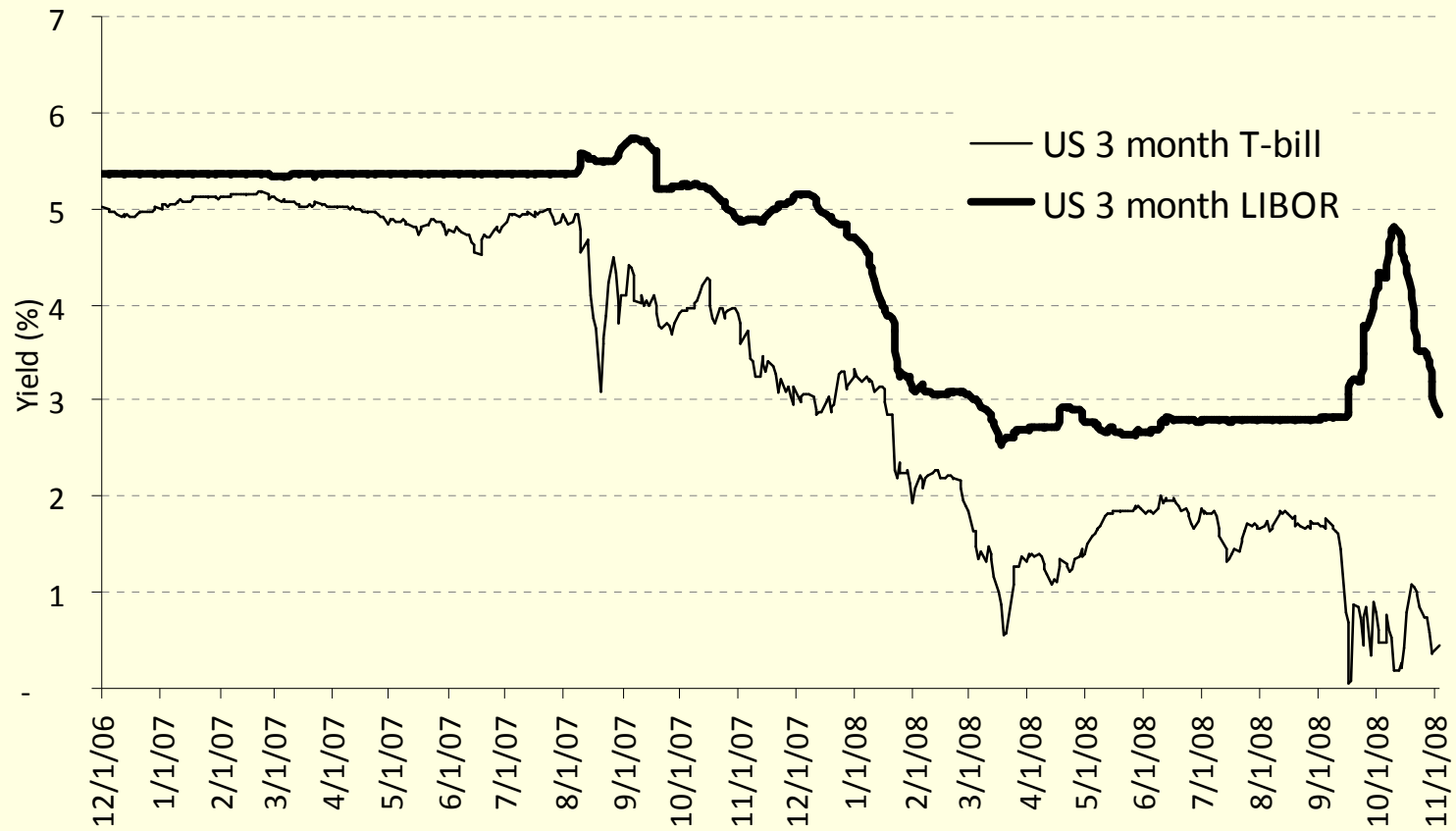
- US Federal Govt extends \$85 billion to **AIG** **[September 16]**
- **Morgan Stanley & Goldman Sachs** convert to bank holding companies – *take deposits, buy/merge with other financial institutions* **[September 21]**

***All 5 major broker dealers are gone – within 6 months***

# Significant Losses in the Equity Markets



# LIBOR Spread has Widened



# Comparison with Other Market Returns

## Major Market Indices (Returns in USD)

	2007	CYTD September 30, 2008
<b><u>EQUITIES</u></b>		
MSCI World	9.57%	-23.84%
S&P 500 Index	5.49%	-19.29%
<b><u>FIXED INCOME</u></b>		
UST 1-5 Index (ML)	8.16%	4.28%
US MBS Index (Lehman)	6.90%	3.83%
US Corporate Bond Index (ML)	5.37%	-7.19%
US Lehman Aggregate Index	6.97%	0.63%
<b>Global Fund Investment Portfolio</b>	<b>6.89%</b>	<b>3.44%</b>



# What are the Implications for the Global Fund Investment Portfolio?

# Conservative Risk Parameters

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**Preservation of principal is paramount objective.**

- Investment strategy is designed to minimize vulnerability to negative returns.
- High-quality credit assets (*subset of those authorized for IBRD and IDA*).



# Changes to Adapt to the Financial Crisis Since June 2008

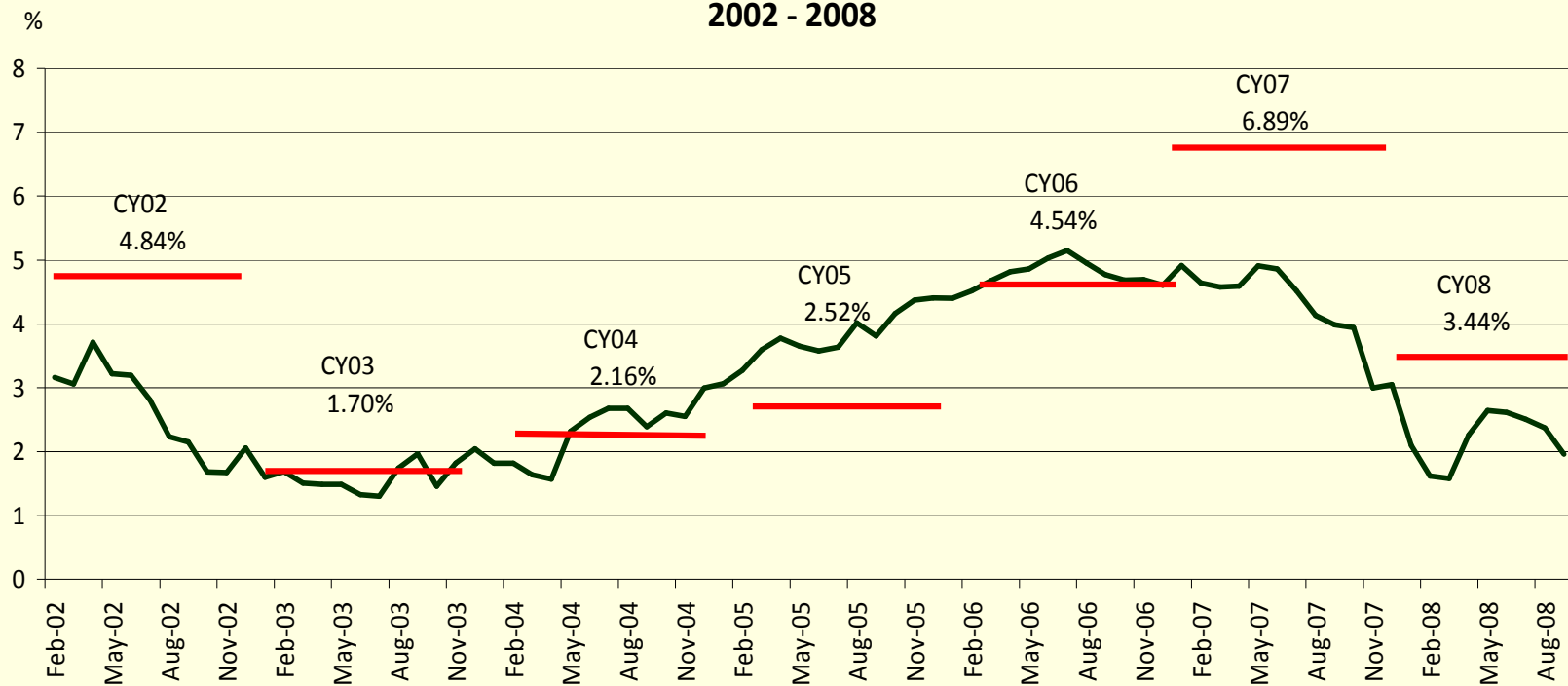
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- Shortened **duration**\*
  - From 1.75 years to 1.25 years.
  
- Reduced **bank exposures**.
  - From 62% to around 50%

\* Duration of non-working capital and non-MBS components.

# Global Fund Trust Fund Returns

Global Fund TF Returns relative to US 2Y Yields  
2002 - 2008



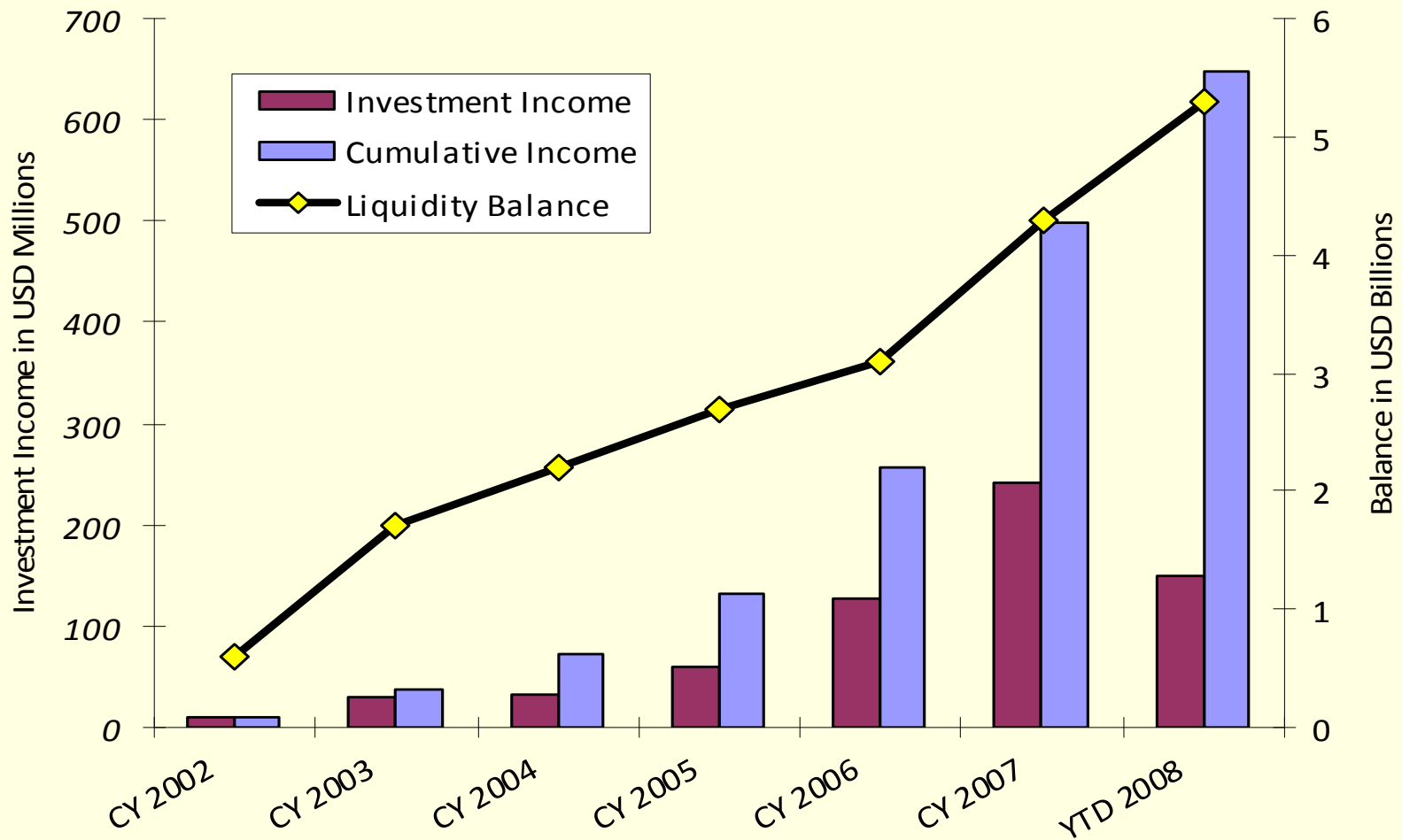
On January 31, 2005, the assets of Trust Funds were converted into two separate tranches. GFATM participates in both tranches.

CY05 return includes pre-tranche returns for January 2005.

The return shown above for 2002 to 2004 is for the total Trust Funds (includes GFATM).

CY08 return is not annualised and is for the period to 30 September 2008.

# Investment Income Earned by Global Fund



\*Note: CYTD income through September 30, 2008

# Conclusion

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- Continuing prudent management of Global Fund funds.
- Anticipate lower returns in low yield environment.

# Additional Slides

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# Illustrative Performance Comparison

	<b>Portfolio 1</b> <b>UST &amp; MBS (70:30)</b>	<b>Portfolio 2</b> <b>Equities &amp; Bonds (60:40)</b>	<b>Portfolio 3</b> <b>Endowment</b>
1H 2008 return (annualized)	4.08%	-13.68%	-12.44%
<b>Last 3 years</b>			
Average annual return	4.7%	3.6%	5.3%
Volatility	2.4%	5.5%	6.0%
Frequency of negative returns	0.0%	16.7%	16.7%
<b>Last 5 years</b>			
Average annual return	3.6%	5.0%	7.8%
Volatility	2.2%	5.5%	6.4%
Frequency of negative returns	0.0%	10.0%	10.0%

Note:

Portfolio 1 comprises of 70% Merrill Lynch US Treasuries 1-3 Index and 30% US MBS

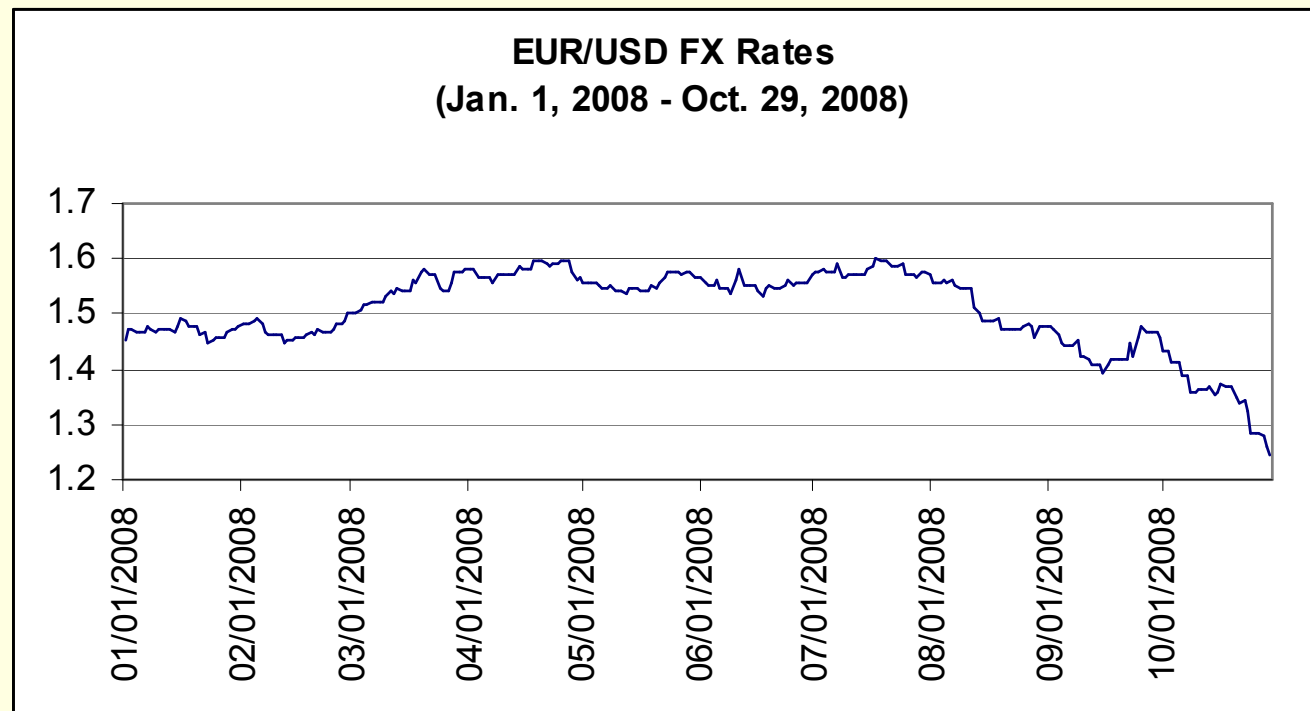
Portfolio 2 comprises of 40% US investment grade bonds (Lehman Aggregate Index) and 60% US equities

Portfolio 3 comprises of 45% public equities, 20% investment grade fixed income, 15% hedge funds, 12% real estate and 8% private equity

Based on quarterly data from Bloomberg, LehmanLive.

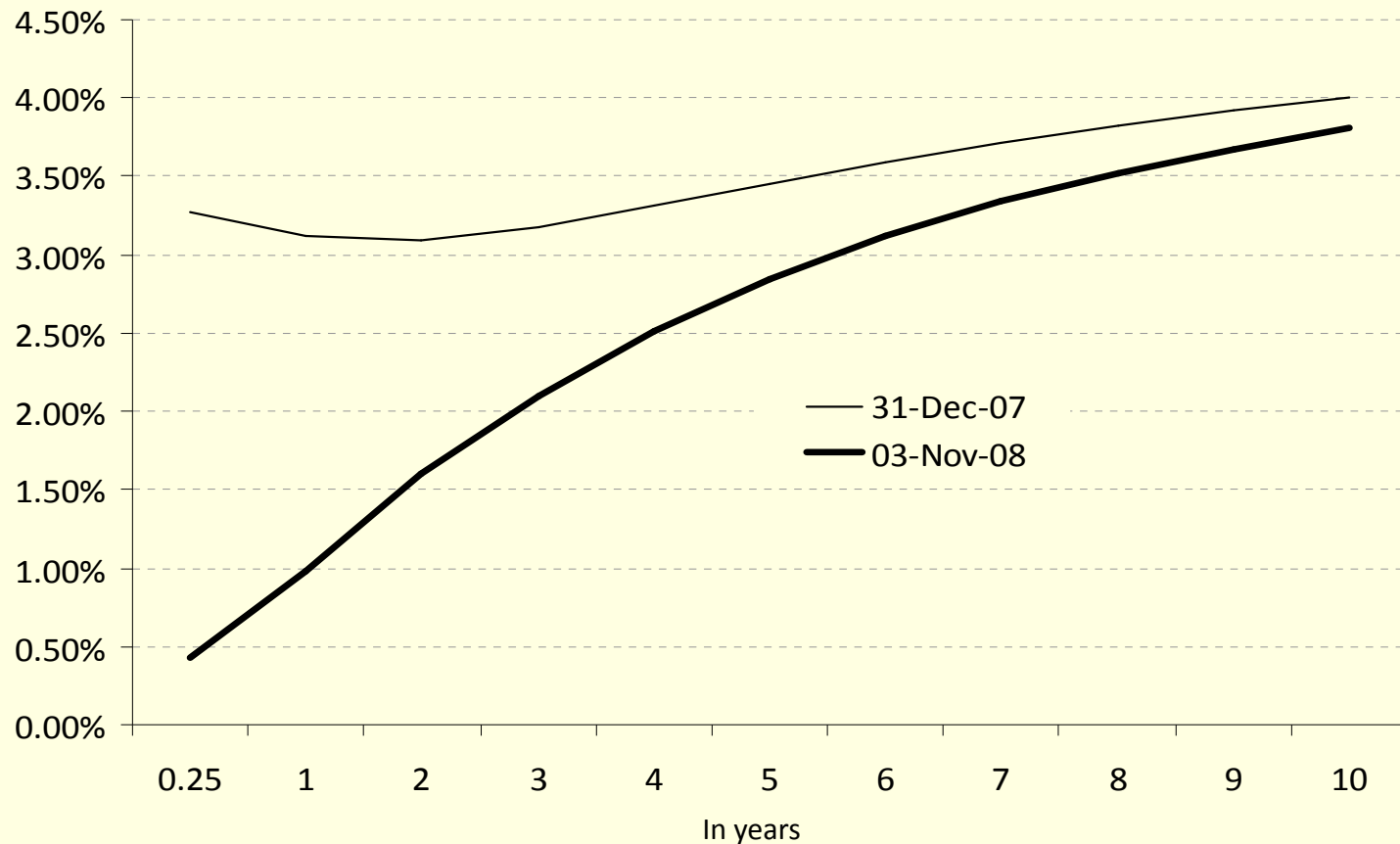
# EUR/USD FX Rates

Since the beginning of the 2008, the USD has strengthened by approximately 15% from 1.45 EUR/USD as of January 1, 2008 to 1.24 EUR/USD on October 29, 2008.



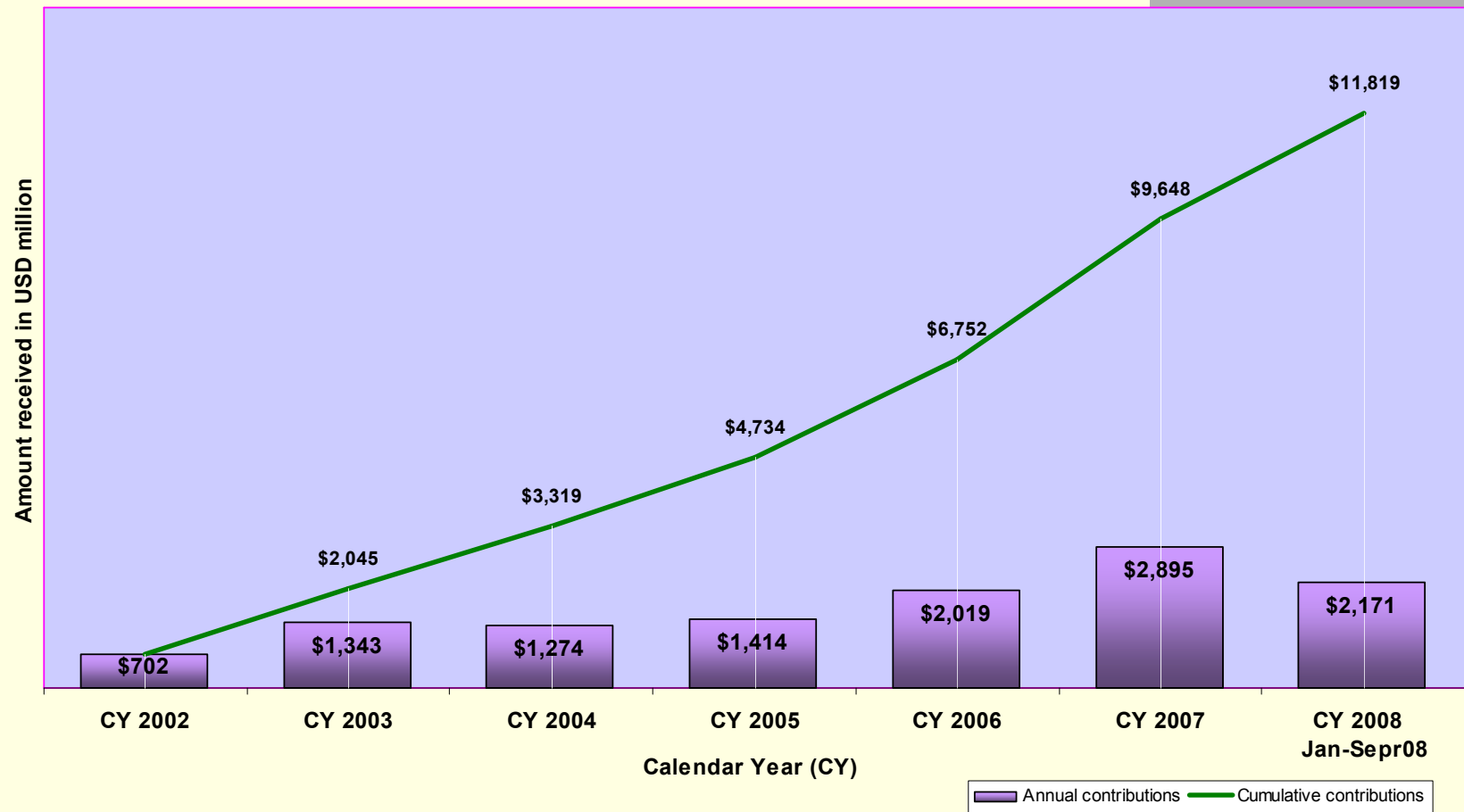
# US Treasury Yield Curve has Steepened

Aggressive Fed rate cuts and flight to quality have driven the steepening of the yield curve

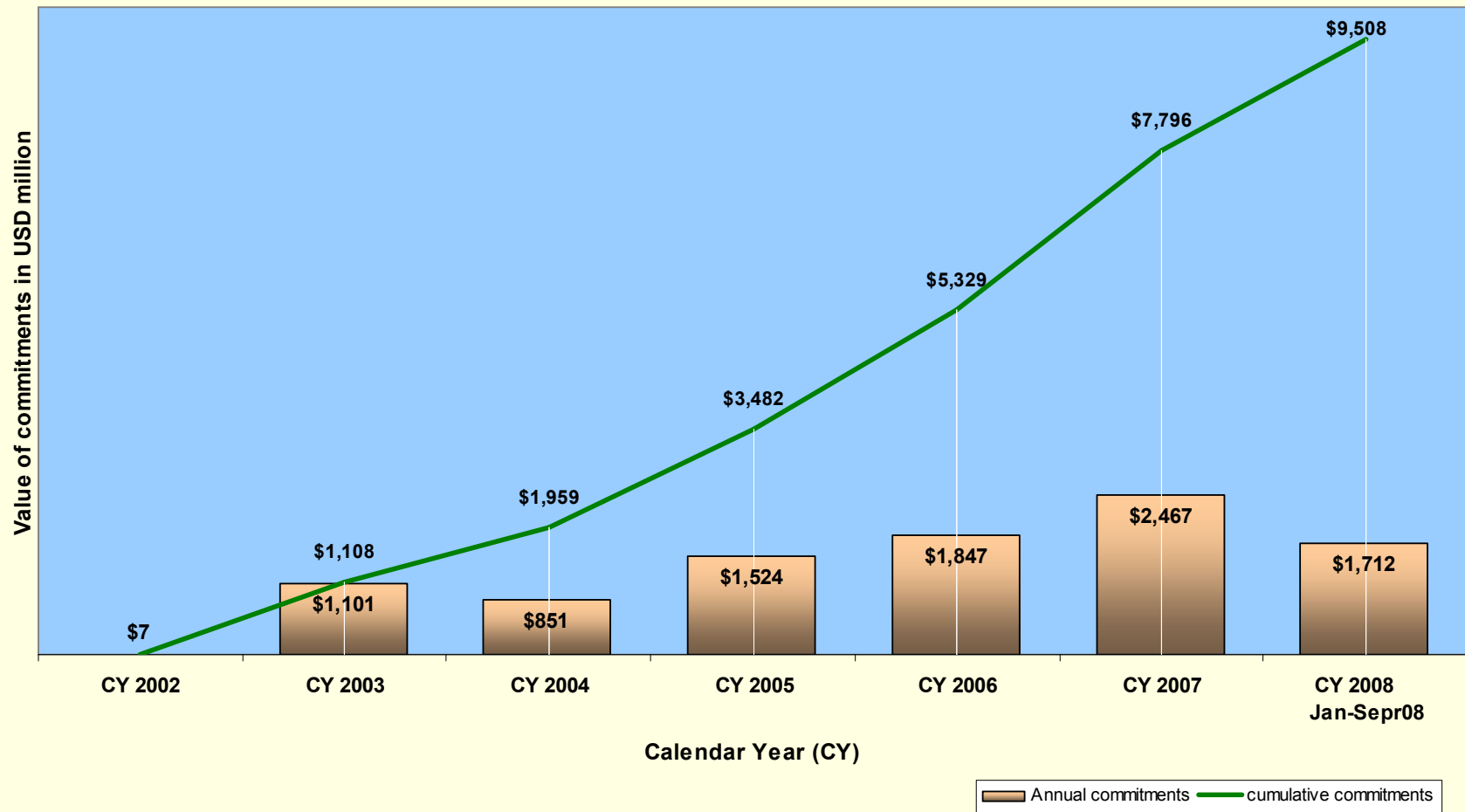




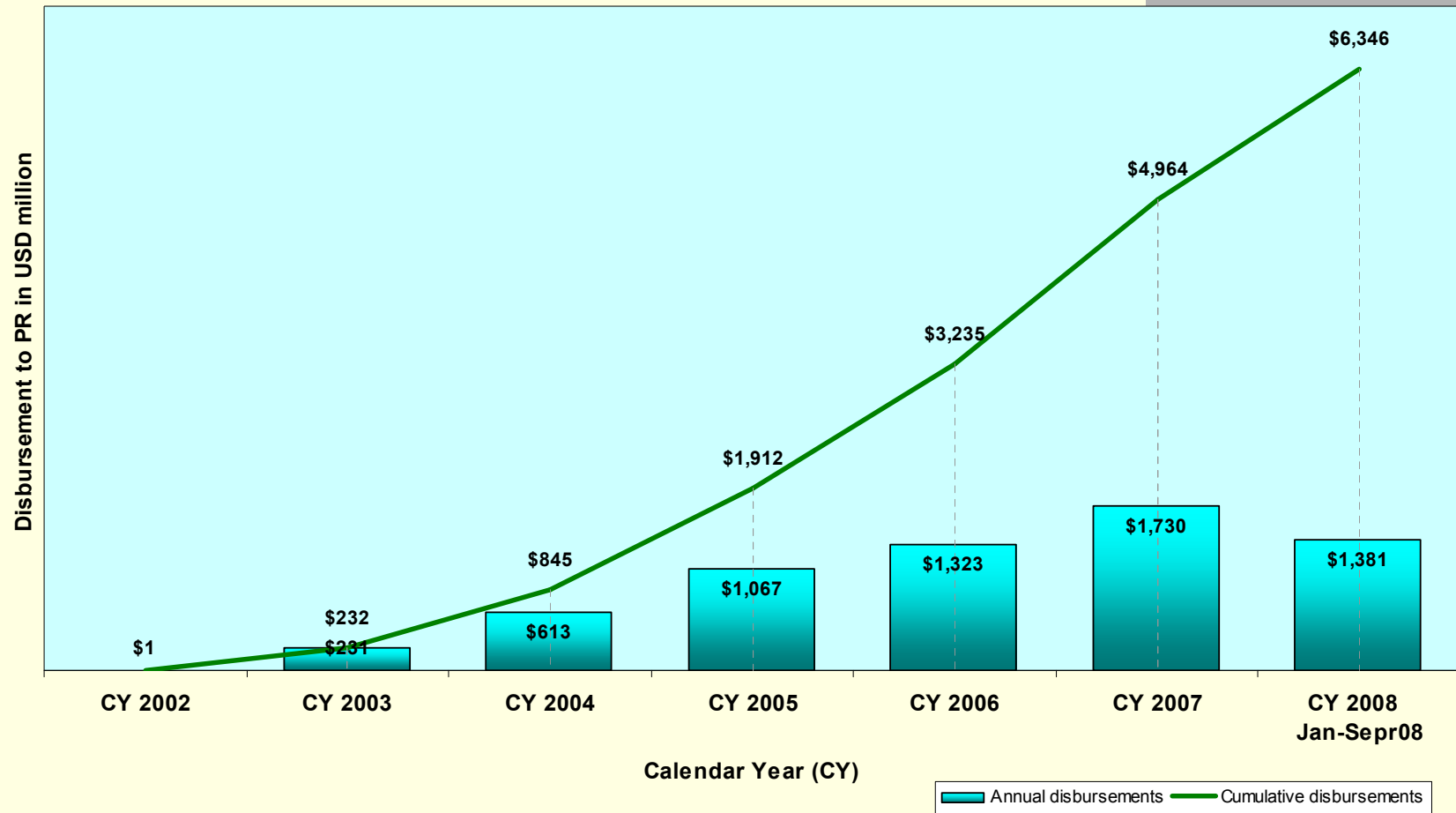
# Donor Contributions



# Grant Commitments



# Disbursements to Principal Recipients



# Transaction Volumes

