

# GLOBAL FUND TO FIGHT AIDS, TUBERCULOSIS & MALARIA

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## Quarterly Investment Report (1-Jul-10 to 30-Sep-10)

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## Introduction

The International Bank for Reconstruction and Development (World Bank) as the Trustee (the “Trustee”) for the Global Fund Trust Fund receives and holds donor contributions to the Global Fund Trust Fund. 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.

## Investment Strategy

The investment objectives for trust fund liquid balances are to (i) maintain adequate liquidity to meet foreseeable cash flow needs, (ii) preserve capital and (iii) maximize investment returns. The return maximization objective is subject to risk tolerance, liquidity and the operational requirements of the underlying trust funds. The investment Pool is made up of three sub-portfolios (called tranches): a cash portfolio (Tranche 0) that comprises bank deposits and investments in money market instruments with an investment horizon of less than 3 months; a short horizon portfolio (Tranche 1) which increases security selection and has an investment horizon of up to one year; and a longer horizon portfolio (Tranche 2) which adds more instruments and has an investment horizon of up to three years. 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. The objective of the tranche structure is to actively manage liquidity and to optimize investment returns for trust funds, which have disparate risk profiles. For any given trust fund therefore, allocations of the cash balances are made to one or more of the Pool tranches based on fund-specific investment horizons, risk profiles and other criteria set by the Bank and the Trustees. The investment universe across the three tranches comprises but is not limited to (i) deposits, (ii) money market instruments guaranteed by financial institutions whose senior debt securities are rated AA- or higher (iii) government bonds or agency obligations rated at least AA-, (iv) mortgage-backed securities, asset-backed securities and corporate securities rated at least AAA and (v) derivatives related to the risk management of securities in the investment pool.

## Asset Allocation

Figure 1: Current Asset Allocation for Trust Fund Portfolio (in USD Equivalent percentages)

	Tranche 0	Tranche 1	Tranche 2	Tranche 3
Govt	0.0%	22.4%	36.3%	0.0%
MBS	0.0%	0.0%	30.6%	0.0%
ABS	0.0%	7.5%	3.6%	10.3%
Agency	0.0%	3.9%	4.6%	2.2%
Sov Gtd	0.0%	11.9%	21.1%	0.0%
MM/Fin. Inst	100.0%	54.1%	3.7%	87.5%
Corporates	0.0%	0.2%	0.0%	0.0%
	<b>100.0%</b>	<b>100.0%</b>	<b>99.9%</b>	<b>100.0%</b>

Please see Figure 7 for more details on types on instruments that could be included

The following sections outline the investment returns earned by the World Bank commingled Trust Fund portfolio over the last quarter, with performance over the previous periods provided for comparison.

### Investment Portfolio Summary

Within the overall commingled Trust Fund portfolio, the performance of individual trust funds is also tracked and the Global Fund (GFATM) performance can be seen in the table below with performance of the overall Pool provided for comparative purposes.

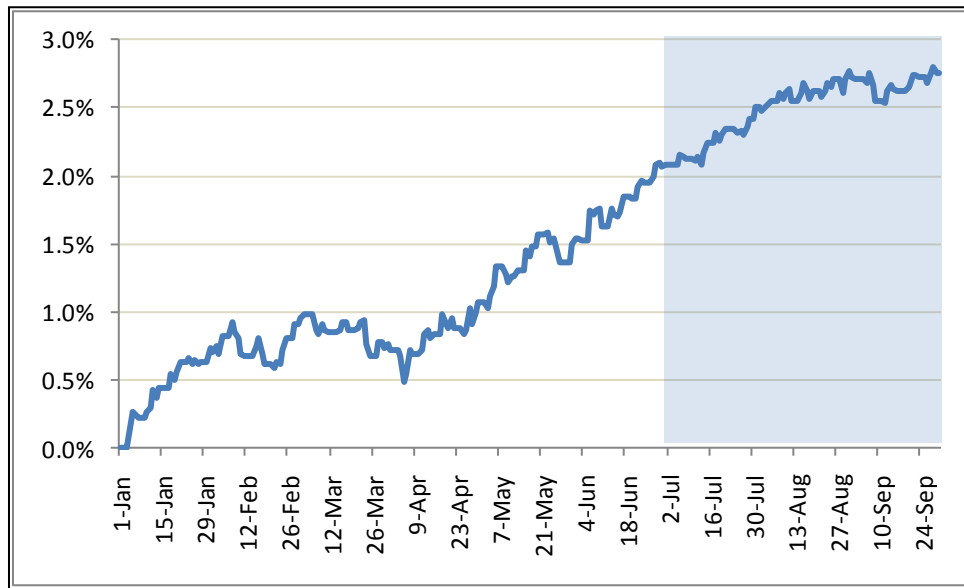
Figure 2: Summary performance statistics for Global Fund and Trust Fund Pool

	Size 30-Sep-10 (million)	Investment Returns			
		Q3 CY10 %	Q3 CY09 %	CY10 %	CY09 %
<b>GFATM</b>	<b>4,906</b>	<b>0.69%</b>	<b>1.16%</b>	<b>2.64%</b>	<b>2.74%</b>
<b>Trust Funds</b>	<b>22,251</b>	<b>0.50%</b>	<b>0.84%</b>	<b>1.70%</b>	<b>2.12%</b>
<i>of which</i>					
<b>USD</b>					
- Tranche 0	2,694	0.07%	0.10%	0.21%	0.46%
- Tranche 1	7,841	0.43%	0.75%	0.99%	1.79%
- Tranche 2	8,922	0.84%	1.33%	3.21%	3.12%
- Tranche 3	1,155	0.20%	0.38%	0.42%	2.00%
<b>EUR</b>					
- Tranche 0	406	0.10%	0.13%	0.25%	0.84%
- Tranche 1	927	0.20%	0.48%	1.08%	2.12%
Other (USD Eq)	306	0.38%	0.28%	1.08%	1.25%

### Investment Portfolio Performance Highlights

The Global Fund liquid portfolio (which totaled approximately USD5bn at end September 2010) returned 0.69% through the third quarter of the calendar year. As Figure 2 shows, this is lower than the investment returns generated by the portfolio through the third quarter of FY09 but compares favorably with the 0.5% returns for the overall Trust Fund investment pool managed by the World Bank. In general, assets towards the riskier end of the investment spectrum performed well through the quarter with more conservative portfolios, such as that managed by the World Bank for GFATM, performing solidly rather than spectacularly. On a calendar year basis however, the GFATM portfolio has given more reason for optimism, almost matching the full calendar year returns for CY09 as at September 2010 (2.64% as at Sep-10 vs. 2.74% for CY09). Indeed, looking at that timeframe, the GFATM portfolio compares particularly favorably against developed market equity indices, which have had a volatile year and returned only 0.4% on average over the same period.

Figure 3: 3Q10 Cumulative returns of the Global Fund trust fund

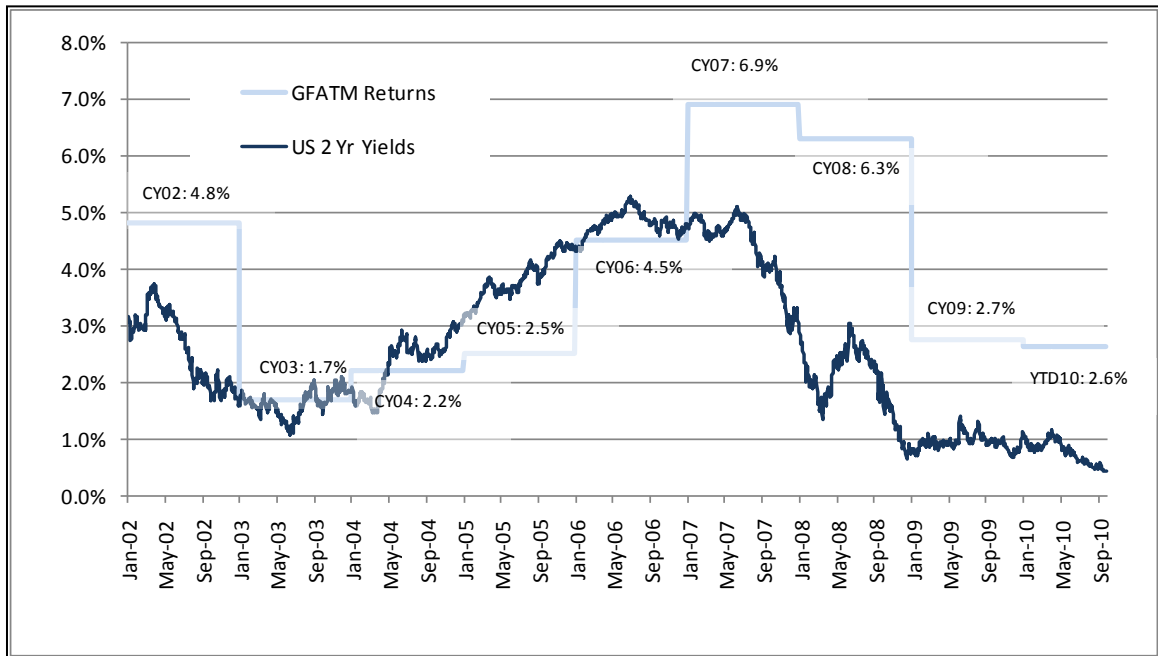


### Investment Climate

The third quarter of the year was again an overall positive one for fixed income assets despite the ongoing high levels of volatility seen in the financial markets. Investor expectations for renewed accommodative policies by fiscal authorities, combined with persistent worries about the pace and strength of economic growth to cause a net reduction in US government bond yields. The quarter started off in a relatively disappointing fashion as US GDP estimates suggested that US economic activity was slowing down relative to Q2. In addition, the underlying jobs and housing backdrop in the US remained anemic, adding to the disappointing start. Offsetting that however was the raft of positive corporate earnings announcements and the results of the European bank stress tests, which showed only a few banks would require additional equity capital in a negative economic environment. August was a far stronger month for fixed income assets as the disappointing tone of July gave way to a negative backdrop. Actual US GDP came in even lower than anticipated (1.6% vs. expectations of 2.4%). The final month of the quarter saw investors look towards the US to sustain the recovery by implementing additional accommodative measures. This resulted in sharp declines in US government bond yields while European yields were marginally higher. The focus was on currency markets with many commentators advising on the adverse effects a new currency war would have on the global recovery. The investment backdrop remains highly volatile however the World Bank will continue to invest the Global Fund liquid assets with a view to return maximization within an overarching framework of capital preservation.

## Historical Trust Fund Returns

Figure 4: Global Fund Trust Fund returns vs. US 2yr Government Bond Yields



The chart above highlights the fact that historically, Trust Fund returns have been close to US 2yr Treasuries. During the global financial markets crisis, as financial market volatility rose and yields on government securities fell sharply, the World Bank Treasury Department posted very strong returns, 6.9% in CY07 and 6.3% in CY08 and a more modest, but still solid 2.7% in CY09 as yields settled at unusually low levels. For the calendar year to date, returns are at 2.6%, while 2yr yields remain mired around 1%.

### Asset Allocation

The table below shows the distribution of the Global Fund liquid assets by type of asset as at end-Sep 2010. The same distribution is shown for end-Jun 2010 for comparison. See Figure 7 for some special considerations concerning the assets.

Figure 5: Global Fund Asset Allocation

		Sep-10	Jun-10	Change
<b>Govt</b>	<b>Domestic Government Bonds</b>	29%	32%	-3%
<b>MBS</b>	<b>Mortgage-Backed Securities</b>	24%	30%	-6%
<b>ABS</b>	<b>Asset-Backed Securities</b>	3%	4%	-1%
<b>Agency</b>	<b>Agency Bonds</b>	4%	4%	-1%
<b>Sov Gtd</b>	<b>Sovereign Guaranteed Bonds</b>	17%	21%	-4%
<b>MM/Fin. Inst</b>	<b>Money Market Instruments</b>	23%	8%	15%
<b>Corporates</b>	<b>Corporate Bonds</b>	0%	0%	0%
		<b>100%</b>	<b>100%</b>	

## Market Data

Figure 6: Select summary financial market data

Rates	30-Sep-10	Chg. On Quarter (bp)	Equities	30-Sep-10	Chg. On Quarter (%)
US 3mth Libor	0.290	-24	S&P500	1,141	10.7%
EU 3mth Libor	0.848	13	Dow Jones	10,788	10.4%
US 2yr Yields	0.422	-18	Nasdaq	2,369	12.3%
EU 2yr Yields	0.833	23	FTSE	5,549	15.5%
UK 2yr Yields	0.653	-9	DAX	6,229	6.8%
JP 2yr Yields	0.141	-1	CAC40	3,715	11.0%
US 10yr Yields	2.510	-42	Nikkei	9,559	-1.4%
EU 10yr Yields	2.275	-30	Hang Seng	22,379	10.5%
UK 10yr Yields	2.950	-41	MSCI World	1,184	14.3%
JP 10yr Yields	0.940	-15			
Credit	30-Sep-10	Chg. On Quarter (bp)	Currencies	30-Sep-10	Level on 30-Jun-10
US Investment Grade	107	-16	EUR-USD	1.363	1.22
EU Investment Grade	111	-18	GBP-USD	1.572	1.495
			USD-JPY	83.530	88.430

Figure 7: Types of instruments that could be contained in the investment pool

Asset Type	Special Considerations
Government Securities	Rated at least AA-
Government Agency, Other Official Entity and Multilateral Organization Securities	Rated at least AA-
Corporate Securities	Rated AAA
Asset Backed Securities	Rated AAA
Bank/Financial Institution Obligations (e.g. Securities, CD, Deposits)	Rated at least A-
Repo & Reverse Repo	
Exchange Traded Futures & Options	
Forward Rate Agreements	Related to investments
Swaps	Related to investments
OTC Options	Related to investments

Note that derivatives and instruments such as Forward Rate Agreements (FRA), Swaps and Options are used for risk management purposes and not as assets or investments in their own right.