GEF/C.59/12
November 9, 2020

59th GEF Council Meeting
December 7-11, 2020
Virtual Meeting

Agenda Item 14

PROPOSAL OF RESPONSIBLE INVESTMENT OPTIONS FOR THE GEF TRUST FUND

(Prepared by the Trustee)

Recommended Council Decision

The Council, having reviewed the document GEF/C.59/12, Proposal of Responsible Investment Options for the GEF Trust Fund prepared by the Trustee, provides its consent to the Trustee to implement the proposed Sustainable Bond Strategy for the GEF Trust Fund. The Council also notes that the proposed Sustainable Bond Strategy and the default ESG Integration approach, already in implementation since July 2019, collectively address the GEF-7 policy recommendation for the Trustee to develop options for a responsible investment strategy for the financial management of the GEF funds held in trust.

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Executive Summary

The World Bank as Trustee for the GEF Trust Fund manages the GEF Trust Fund assets under the provisions of IBRD's and IDA's General Investment Authorizations[1], which are approved by the World Bank's Board of Executive Directors and determine the framework under which the Trustee provides investment management services to the GEF Trust Fund.

All trust fund assets administered by the World Bank, including those of the GEF Trust Fund, are maintained in a commingled investment portfolio (the "Pool"). To accommodate varying investment horizons and risk tolerances of individual trust funds, the Pool comprises of sub-portfolios, called Model Portfolios. The GEF assets are currently invested in Model Portfolios 0, 1 and 2 which comprise of a liquid and highly rated spectrum of eligible fixed income instruments.

During the GEF-7 replenishment negotiations, participants requested the Trustee to develop options for social and responsible investment (SRI) strategies for the GEF Trust Fund that are consistent with international best practice for environmental, social and governance (ESG) standards. Trustee identified ESG Integration as the most appropriate strategy and starting from July 2019, started to apply ESG Integration as the default SRI approach for all portfolios managed by the World Bank, including for the GEF Trust Fund. The implementation of ESG Integration falls within the purview of existing authorizations by the World Bank Board, and thus would not involve any changes in the existing investment objectives or risk limits for the GEF Trust Fund portfolio.

Since then, the Trustee received several requests from the GEF participants to pursue and explore strategies which extend beyond ESG Integration and create a positive developmental impact. The Trustee has since then explored several alternative SRI strategies which are within the purview of World Bank's Investment Authorizations and uphold the overarching primary investment objectives of capital preservation and liquidity on demand without causing any meaningful alteration in the risk and return profile.

Through in-depth portfolio analysis and extensive market research, the Trustee proposes an SRI option through Sustainable Bond Strategy for the GEF Council's consideration. The GEF (and any trust funds subsequently wanting to allocate to this strategy) will be required to explicitly "opt-in" to this strategy as it extends beyond the default ESG Integration used by the World Bank Treasury by limiting the investable universe to a specific subset of bonds that will have the required characteristics to qualify as "Sustainable".

The Sustainable Bond Strategy aims to be inclusive enough to be available to all eligible funds in the Pool, and thus is expected to result in lower operating costs and resource requirements. The strategy, if accepted to be adopted by the GEF Council would be implemented starting with bonds that fall within the World Bank's existing investment authorizations and guidelines for the management of the Pool, namely the Sovereign, Supranational and Agency (SSA) securities. The rationale is to preserve the risk/return profile of the GEF Trust Fund assets while at the same time focus on opportunities in achieving intentional positive impact. Initial stage of the implementation is expected to provide deeper insights into the investable universe, the relative risk/return characteristics, reporting features and other aspects.

Overall, under both the default SRI option of ESG Integration and the proposed Sustainable Bond Strategy, the GEF Trust Fund assets will continue to be invested for the objectives of capital preservation and liquidity on demand by focusing on optimizing risk-justified investment returns within the World Bank's investment authorizations and guidelines.

[1] General Investment Authorization for IBRD (Resolution No. 97-1, adopted on April 18, 1997); General Investment Authority for IDA (Resolution No. 2001-1, adopted on January 23, 2001).

I. Objective

1. During the GEF-7 replenishment negotiations, participants requested the Trustee to develop options to incorporate ESG factors in the GEF liquid asset portfolio. As such, the GEF-7 policy recommendations[2] reflect that "*Recognizing the GEF's unique role and mandate in the global environment architecture and the increased emphasis on integration and sustainability in GEF-7, Participants request the Trustee to develop options for a responsible investment strategy for the financial management of the GEF funds held in trust, for consideration by the Council and consistent with international best practice for environmental, social and governance (ESG) standards*".

2. This document is prepared by the Trustee in response to the GEF-7 replenishment policy recommendation to explore and offer SRI options that takes into account of all essential factors, including but not limited to the best industry practice, the GEF's SRI aspirations, impact to the risk and return profile of the GEF portfolio, implementation practicality, scalability, cost efficiency, and reporting.

3. This note is in continuation of the discussion note presented to the GEF Council in December 2018, introducing the potential implementation of ESG Integration as the default SRI approach for the World Bank's Trust Fund and FIF investment pool from July 2019.

II. Overview of SRI Options

Background - Sustainable and Responsible Investment

4. Sustainable and Responsible Investment (SRI) is an investment approach that considers environmental, social and corporate governance (ESG) criteria as part of the investment process or strategy. There can be many reasons for adoption of SRI, including personal/corporate values and goals, institutional missions, and client/asset owner demand. Some investors embrace SRI strategies to manage risk and fulfill fiduciary duties by considering ESG criteria to assess the quality of management and the likely resilience of their portfolio companies in dealing with future challenges. Some are seeking financial outperformance over the long term with a growing body of academic research shows a strong link between ESG and financial performance.

5. There are, broadly speaking, seven commonly used SRI strategies in the market:

   i. **Sustainability-themed investments:** Investment in issues or in assets linked to the development of sustainability. Themed funds center on specific or multiple issues relating to environmental, social and corporate governance criteria. Examples would include COP21, low carbon economy, renewable energy, waste management, etc.

   ii. **Best-in-class investment selection:** An approach in which the investments with the best outputs within a field, category or class based on the ESG criteria are selected or weighted. Best-in-class positively screens for stocks and is regarded as being an investment process based on selecting perceived good values.

   iii. **Norms-based screening:** Selecting investments based on their compliance with international standards and rule-based on criteria such as environmental protection, human rights, labor standards and anti-corruption. These norms are those developed by the OECD, the UN and the UN's agencies and United Nations.

[2] GEF-7 Replenishment Policy Recommendations, GEF/R.7/18 (https://www.thegef.org/sites/default/files/councilmeeting-documents/GEF-7%20Policy%20Recommendations%20-%20GEF_R.7_18.pdf)

iv. **Exclusion of holdings from investment universe:** This approach excludes specific investments or classes of investment from the field being invested in such as companies, sectors or countries based on limiting reputational or operational risk. Exclusions can be based on a norms-based approach or ESG criteria. This strategy has shown rapid and consistent growth.

v. **Engagement and voting on sustainability matters:** Stockholder activism and active implication through engagement with companies on SRI/ESG matters and includes voting in shareholders meetings. This method is often a long-term process that seeks to influence behavior or to increase the transparency on particular topics.

vi. **ESG Integration**: This strategy explicitly includes ESG risks and couples them with potential opportunities by asset managers in traditional financial analysis/factor research. Investment decisions are often based on a systematic process. This method is the most suited to a quantitative approach to ESG investing.

vii. **Impact Investing:** Direct investments made within companies, organizations and/or funds with the intention of generating a social and environment impact as well as a financial return.

6. The Trustee has undertaken extensive research and analysis and identified that ESG Integration and Sustainability-themed approaches are SRI approaches that are implementable by the Trustee following the approved investment authorization and guidelines for offering to its clients. The rest of the document aims to elaborate the features of these SRI approaches, including the details of the types of investible assets, risk/return characteristics, reporting, etc.

Overview of Investment Management for the GEF Trust Fund

7. The investment objectives for the GEF Trust Fund are to optimize investment returns subject to preserving capital and maintaining adequate liquidity to meet foreseeable cash flow needs, within a conservative risk management framework[3].

8. The liquid assets of the GEF are currently invested across three investment Model Portfolios comprising entirely of investments in high quality fixed income securities as well as cash and cash equivalent securities for liquidity purposes. Of the GEF Trust Fund's liquid assets of approximately USD 3.79 billion[4], approximately 83% is invested in Model Portfolio 2, with the remaining assets in Model Portfolios 0 and 1 for liquidity purposes. On a quarterly basis, the World Bank reviews the balances in each Model Portfolio against projected cash flows and rebalances these amounts to ensure adequate liquidity is available to meet projected cash flow needs. The investment characteristics of the three Model Portfolios, and the overall asset allocation of the GEF Trust Fund's investment across these Model Portfolios are shown in *Figures 1* and *2* below.

9. The historical investment returns of the GEF Trust Funds investment portfolio (refer to *Figure 3* below) are representative of the prevailing market conditions of each period. In recent years, investment returns have rebounded from the FY16 lows until the end FY20, when COVID-19 roiled the global economy, triggering massive monetary easing measures and ultra-low interest rates committed by central banks for the foreseeable future.

[3] Risk tolerance is defined as the expected maximum loss, as measured by the Conditional Value-at-Risk (CVaR), at the portfolio's investment horizon, not to exceed 1% at portfolio's investment horizon, with 99% confidence.

[4] As of September 30, 2020.

Figure 1: Investment characteristics of the Model Portfolios to which the GEF Trust Fund allocates

Model Portfolio	Model Portfolio 0	Model Portfolio 1	Model Portfolio 2
Investment Objective	Ensure timely availability of liquidity	Enhance returns subject to preservation of capital and the risk tolerance over the investment period.	
Investment Horizon	3 months or less	1 year	3 years
Eligible Trust Funds	All Trust Funds	Funds with limited appetite for investment return volatility on a year to year basis	Larger Trust Funds with relatively predictable cash flow projections and stable liquidity over 3 years
Eligible Investment Products	Cash	Cash, short – intermediate government bonds	Cash, short – intermediate government bonds, US Agency MBS

Figure 2: GEF Trust Fund asset allocation (as of end-September 2020)

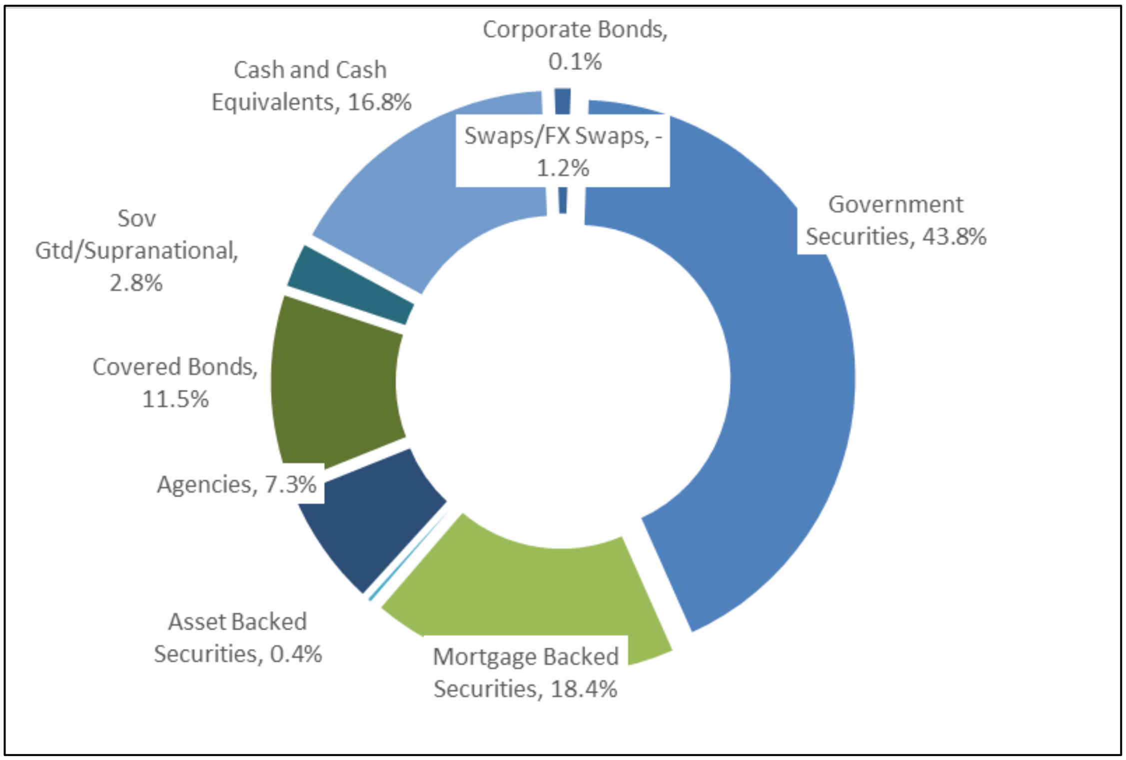
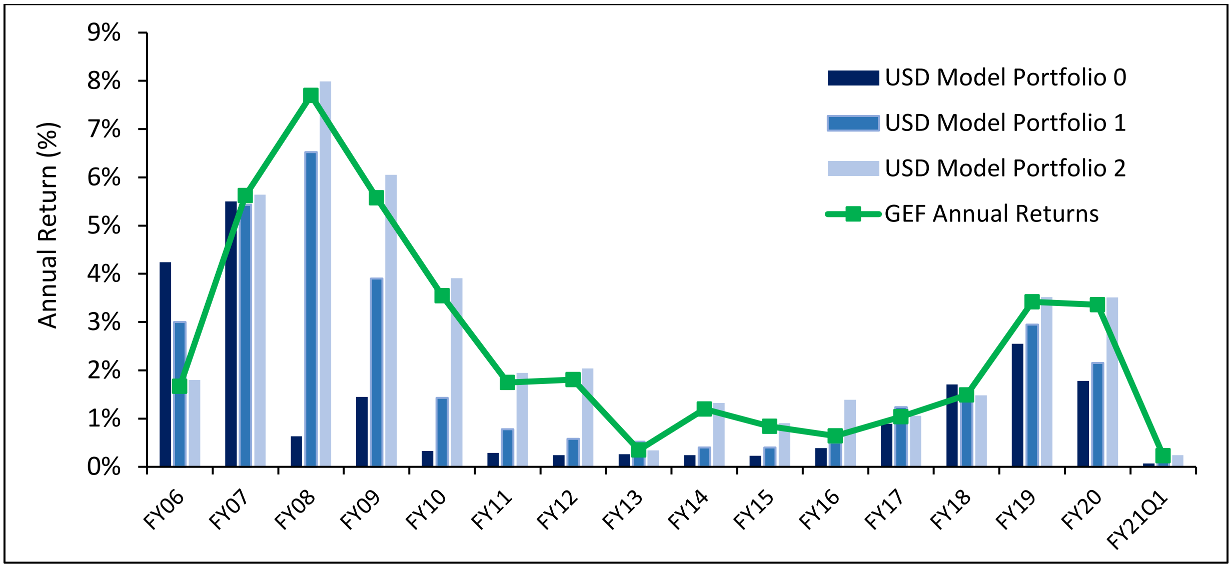


Figure 3: Historical Annual Returns of the GEF Trust Fund and by Model Portfolio (1 July 2005 – 30 September 2020)



III. Current Default SRI approach for the GEF: ESG Integration

10. Following the GEF-7 policy recommendation in July 2018 for the Trustee to develop SRI options for the GEF Council's consideration, the Trustee has explored various SRI options that could be implemented by the World Bank's existing investment authorization. Based on the endorsement by the World Bank management, the Treasury department rolled out to applying ESG Integration as the default SRI approach for all portfolios managed by the World Bank starting from July 2019, including for the GEF Trust Fund assets by virtue of it being part of the Pool. This means that without applying other customized SRI options, the GEF Trust Fund is already invested in ESG Integration as the baseline SRI option for the GEF, which is in line with "the GEF's unique role and mandate in the global environment architecture and the increased emphasis on integration and sustainability in GEF-7"[5].

11. ESG Integration is the extension of traditional financial analysis to explicitly consider ESG risks and opportunities in investments. As recapped in the previous section of "Background – Sustainable and Responsible Investment", along with ESG Integration, there are six other commonly used SRI approaches. After an in-depth assessment of these SRI approaches, the World Bank Treasury decided that ESG Integration is the most balanced and suitable SRI approach for the Bank's Trust Fund investment pool in general. As shown in *Figure 4*, ESG Integration offers general application to the principal asset class that make up the Bank's trust fund pool investments.

12. The implementation of ESG Integration falls within the purview of existing authorizations by the Bank Board, and thus would not involve any changes in the current investment objectives or risk limits for the GEF Trust Fund portfolio. No Further actions is required from the GEF Council regarding the adoption of ESG Integration.

[5] GEF-7 Replenishment Policy Recommendations, GEF/R.7/18 (https://www.thegef.org/sites/default/files/council-meeting-documents/GEF-7%20Policy%20Recommendations%20-%20GEF_R.7_18.pdf)

Figure 4: Sustainable and Responsible Investment (SRI) approaches and scope for application across asset classes

	Sustainability-themed investments	Best-In-Class investment selection	Norms-based screening	Exclusion of holdings	Engagement and voting	ESG Integration	Impact investing
Equities	Significant/Some Scope	Significant/Some Scope	Significant Scope	Significant Scope	Significant Scope	Signficant Scope	Significant Scope
Fixed Income: Corporates	Significant/Some Scope	Limited Scope	Some Scope	Some Scope	Some/Limited Scope	Signficant Scope	Some Scope
Fixed Income: Sovereigns	Limited Scope	Limited Scope	Some Scope	Limited Scope	Limited Scope	Signficant Scope	Limited Scope

Source: BlueBay Asset Management

ESG Integration – Impact on the risk/return profile for the GEF

13. ESG Integration is not expected to change risk and return profile of the Pool or change the profile of the securities held in the portfolio. ESG Integration is part of the existing investment process and is intended to help fulfil the existing investment objectives and improve the risk/return profile of the portfolios for which it is used. The focus on looking at potential risks and opportunities of various ESG factors should, all things being equal, lead to portfolio profiles that have stronger ESG profiles compared to portfolios that do not explicitly consider these ESG issues.

14. The difference in ESG profile is, however, very much dependent on the types of securities that a portfolio invests in. For example, one should expect greater profile differences between portfolios that have significant allocations to equities and corporate bonds than portfolios that largely invest in developed market government bonds. Similarly, ESG risks and opportunities are more likely to manifest themselves in portfolios with longer investment horizons compared to liquidity portfolios that tend to invest in shorter dated securities.

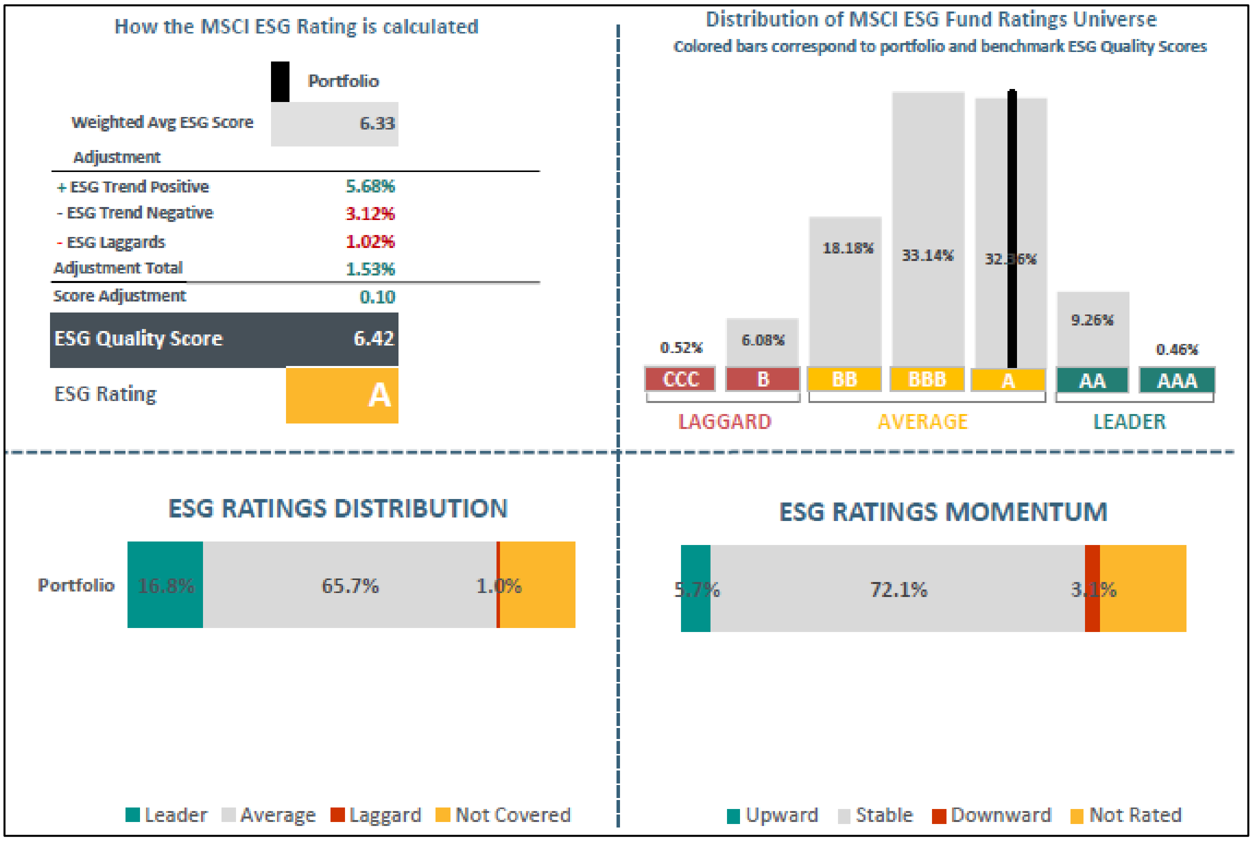
15. The GEF investment portfolio is primarily comprised of high-grade fixed-income securities, with almost 70% of the portfolio held in sovereign, supranational and agency securities and much of the remainder invested in bank deposits. As expected, this composition has not changed since the formal implementation of ESG Integration, particularly because the underlying investment objectives of the GEF Trust Fund have not changed. As a result, there has not been any shift in the overall ESG profile of the portfolio from an ESG ratings perspective. As shown in *Figure 3*, the investment returns have not significantly changed since the implementation of ESG Integration from July 2019 throughout FY19-20 under the same market conditions.

ESG Integration – ESG rating and reporting

16. The Trustee uses MSCI ESG Research in its implementation of ESG Integration. All reference to ESG scores, ratings and profiles therefore uses MSCI's research methodology and scores to generate portfolio reports. The MSCI methodology rolls ESG analysis up to the issuer level and does not consider the specifics of any individual securities. Moreover, while MSCI has significant coverage of the bond universe from an ESG rating perspective, MSCI's methodology does not generate analytics on data such as carbon risk, climate change risk or climate value-at-risk for a significant part of the bond universe, such as sovereigns for example.

17. *Figure 5* below shows the ESG rating profile[6] of the GEF Trust Fund as at end-September 2020. This indicates that the GEF Trust Fund has an ESG Rating of A, which is among the high rated portfolios that uses MSCI for ratings. The GEF Trust Fund's 18.4% allocation to MBS has a negative effect on the overall score as the issuers of those securities have ESG ratings in the BBB-BB range.

Figure 5: ESG Ratings of the GEF Trust Fund



IV. Targeted SRI approach for the GEF: Sustainable Bond Strategy

18. Introducing a Sustainable Bond Strategy (the "Strategy") as an investment product in the World Bank Trust Fund (WBTF) Pool will mean using *Sustainability-Themed Investment* as the SRI approach beyond the existing ESG Integration (see *Figure 4*). While almost all the principles of ESG Integration will continue to apply in the new strategy but the SRI approach used will change because the Strategy will necessarily constrain the currently available investable universe, by specifically targeting a subset of the entire universe that has sustainable labels or some other defined characteristics that mean it can be part of a sustainability-themed SRI approach, something that ESG Integration does not do. ESG Integration instead considers the entire investable universe and then makes security selection decisions based on the risks and opportunities of ESG factors alongside the traditional financial factors. The constrained universe will, de facto, mean that trust funds allocating to the Strategy are adopting additional investment objective of

[6] ESG Quality Score measures the ability of underlying holdings to manage key medium to long term risks and opportunities arising from ESG factors. It is based on MSCI ESG Ratings and measured on a scale of 0 to 10 (worst to best).
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.

creating sustainable development impact to the existing overarching objectives of capital preservation and liquidity when required.

Sustainable Bond Strategy – Alignment with GEF's development mission

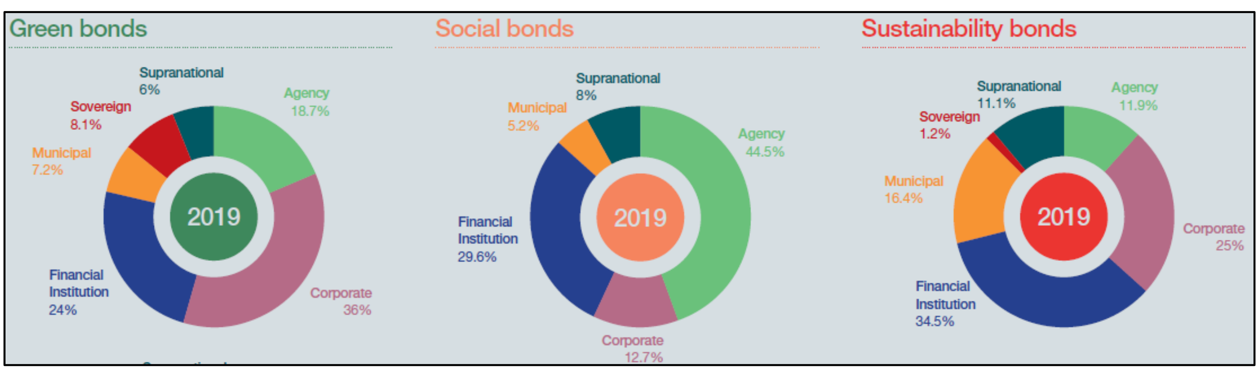
19. Trustee believes that a Sustainable Bond Strategy is closely aligned with GEF's overall development mission and SRI aspirations. The green bonds support environmental projects and programs, social bonds support social projects and programs, and sustainability bonds (not to be confused with the broader catch-all "sustainable" we are using for the strategy) support a mix of environmental and social projects and programs. These three bond types finance specific projects, albeit they are not secured against any project. Beyond these three types, there are sustainable development bonds which are not earmarked for specific projects but are intended to support one or more of the Sustainable Development Goals (SDGs).

20. The sustainable bond universe has experienced rapid growth over the past decade, with the reported market value of self-labelled bonds reaching US$1.15 trillion[7] at end October 2020. This universe primarily comprises bonds that are aligned with one of:

i. The Green Bond Principles
ii. The Social Bond Principles
iii. The Sustainability Bond Guidelines
iv. Climate Bonds Certification, issued by the Climate Bonds Standard Board
v. Green Financial Bond Directive, issued by the People's Bank of China
vi. Green Bond-Endorsed Project Catalogue, issued by the People's Bank of China

Green bonds were the first labelled bonds and as a result dominate the existing universe. They also remain the leading type of issue, with 2019 for example seeing total sustainable bond issuance of around US$325 billion equivalent, of which green bonds accounted for some US$260 billion (80%), social bonds around US$15 billion (4.6%) and sustainability bonds around US$50 billion (15.4%). In terms of bond issuer type, figure below shows the distribution of issuer by each sustainable bond type.

Figure 6: Sustainable bond issuance by issuer type,2019



21. Trustee believes that for investors such as the GEF, labels alone are unlikely to be sufficient for a long-term thematic investment solution and a robust, scalable investment solution that looks to the future necessarily has to look beyond the label (for example if sub-strategies focusing on clean transport or

[7] Source: bonddata.org

renewable energy, become practical or desirable, are in line with the Trustee's responsibilities in implementing strategies that adhere to the existing investment objectives of the WBTF Pool and allowable under the Trustee's Articles of Agreement). A criticism of labelled bonds is that the labels may be too binary and often does not explicitly reveal the thematic impact or outcome. , For this reason, narrowing down the universe to labeled bonds would be an unnecessarily limiting approach that encourages issuers to limit transparency of their issuance programs to amounts equivalent to their labeled bonds, rather than a larger portion, up to the entire balance sheet for issuers whose entire mandate is sustainable development or sustainability regardless of the label. By looking beyond labels and considering an issuer's overall profile, investors will be advancing an investment approach aimed at channeling all funds towards sustainable activities.

22. In addition to this universe, the unlabeled bond issuance by multilateral banks, development finance institutions, export credit agencies and national development banks may often be considered part of the sustainable bond universe given the wider sustainable development missions of these issuers.

Sustainable Bond Strategy – Implementation approach and timetable

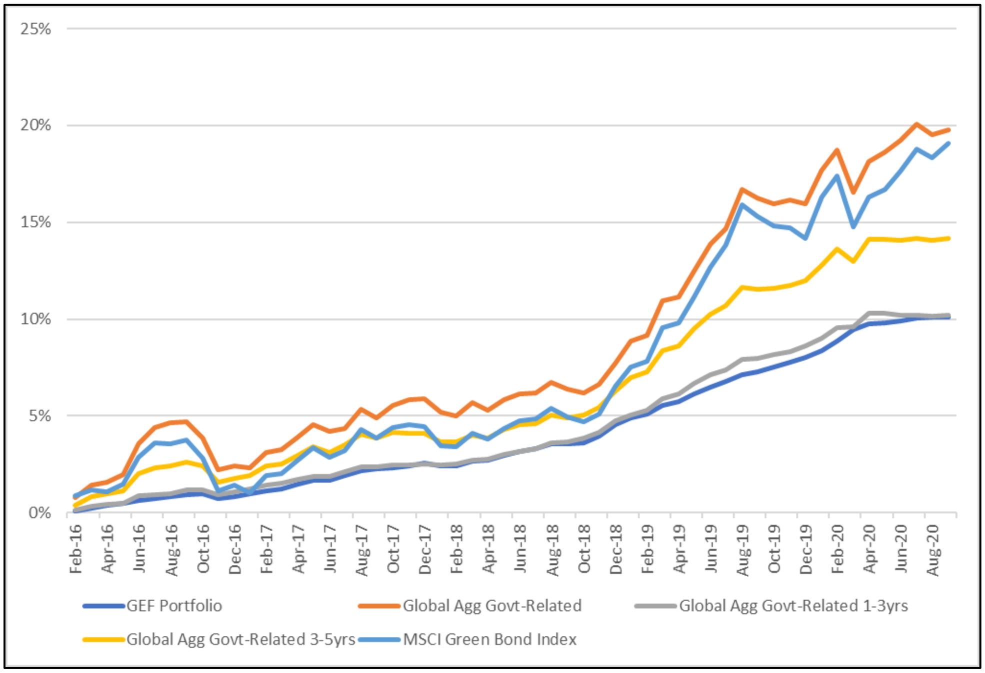
23. The trustee expects that the distribution of bond types in the Strategy will eventually reflect the sustainable bond universe overall (i.e. primarily comprised of green bonds). Consistent with the guidance from the World Bank management, the Trustee will begin with considering ONLY those bonds that fall within current authorizations and guidelines used by the Trustee for management of trust fund liquidity. Practically, this means the Strategy will initially consist of Sovereign, Supranational and Agency (SSA) securities. These are well-known, high-grade issuers whose issuance tends to be among the most liquid available, and for the Strategy, the goal will be to look for issuance programs that offer more transparency around the use of proceeds and supporting issuers that focus on achieving an intentional positive impact with their activities.

24. Moreover, this initially limited universe is not expected to meaningfully alter the risk/return profile of portfolios such as the GEF Trust Fund since the bonds used will have a similar credit profile to some 70% of the GEF Trust Fund's existing investments. As shown in *Figure 6*, the SSA universe would still give a significant potential universe for the Trustee to build the Strategy. For example, taking 2019 issuance of sustainable bonds alone, the Trustee would have a total SSA universe of some US$100 billion equivalent to consider before taking into account aspects such as duration requirements for portfolio specific considerations.

Sustainable Bond Strategy – Risk and return perspective

25. An analysis of the risks and returns of a prospective Strategy shows a benchmark of primarily SSA bonds with similar duration to the GEF Trust Fund has performed in line with the GEF Trust Fund over a near-5-year history and has similar risk. *Figure 7* below shows the cumulative returns over a near 5-year period of the GEF Trust Fund and selected bond indices that have similar characteristics to the proposed Strategy. The chart shows that the GEF portfolio has a very similar return trajectory to the Bloomberg Barclays Global Aggregate Government Related index of bonds (which are practically all SSAs) with a maturity between 1 and 3 years. This stands to reason, as that index has a steady duration of roughly 1.8 years while the GEF Trust Fund duration ranges between 1.2 and 2 years. The other indices shown have shown higher cumulative returns but clearly also have higher return volatility due to their higher durations (in the 5.5 to 8-year range over time). This suggests that the universe of bonds contemplated for the initial implementation will approximate the issuer risk/return profile of the GEF Trust Fund and the Trustee can then select duration based on portfolio management considerations.

Figure 7: Cumulative returns of selected bond indices



26. Historically, there has been a perception that labelled bonds have tended to be more expensive than their non-labelled counterparts from the same issue. The so-called "greenium" in the case of green bonds, means that green bond investors should expect to give up a small number of basis points versus buying non-green bonds. While this may have been the case in the early days of the sustainable bond market due to size and liquidity, it is not considered a meaningful factor today. Nonetheless, where the greenium has been observed on specific issues of the same issuer (rather than across the board), the ad-hoc evidence suggests that the greenium is small, in the order of 1-2 basis points, or one to two hundredths of a percent, meaning that rather than buying a "traditional" bond from an issuer than might yield 1.5% per year, the sustainable bond of that issuer might yield 1.48%-1.49% instead. Investor discussion around any price difference has centered around the idea that if the point of sustainable bonds is to be catalytic and reduce the cost of capital for sustainable projects by preferentially allocating capital to them, then any "greenium" may actually be evidence that the efforts are working.

Sustainable Bond Strategy – Cost perspective

27. The WBTF Pool has always sought to lower costs and resource requirements by developing strategies that could be used across the broad client base. The Strategy will be no different, the Strategy will aim to be as inclusive as possible so that most, if not all, interested trust funds can participate (subject to eligibility criteria[8]). As noted earlier, the Trustee is well versed in the contemplated investment universe, already possessing the necessary investment infrastructure, therefore there are no additional costs associated with initial implementation of the strategy starting with SSA universe.

28. Given the Trustee's familiarity with the SSA universe, the initial implementation of the Strategy can begin almost immediately with respect to investment activity. There would be a period immediately

[8] Examples of such criteria would be (i) the ability to forecast liquidity levels over the medium-to-long term (3 years plus), (ii) the ability to withstand short term investment income volatility and (iii) sufficient liquidity that allows the build-up of a well-diversified portfolio.

following approval by the GEF council in which decisions such as, formulating a framework underpinning the inclusion of unlabeled bonds and developing a robust and scalable impact reporting template are discussed, however these are not expected to be barriers to the primary activity relating to implementation. Indeed, the Strategy is expected to evolve in size and scope over time, reflecting the market growth and lessons learned, for investors, the Trustee and issuers.

29. Any extension beyond currently authorized SSAs would likely require increased resources to deal with credit analysis, use-of-proceeds analysis, investment management and reporting associated with such a meaningful enlargement of the investable universe.

Sustainable Bond Strategy – Asset allocation

30. The longstanding investment objectives of capital preservation and liquidity when required mean that there is no numerical target for allocation of liquidity for any trust fund. The Trustee will allocate to the Strategy for any trust fund on a dynamic basis, depending on market opportunity, return maximization and risk management, in keeping with the Trustee's longstanding management style for the World Bank Trust Fund Pool.

Sustainable Bond Strategy – Reporting on impact investment

31. An important aspect of the sustainable bonds is the increased accountability and transparency that they offer. Labelled bonds' "use of proceeds" format and framework gives investors an indication of the types of projects that they fund and what environmental and social policies they pursue, and, in some cases, may be able to assure investors of the projects that are being funded with equivalent amounts. Labelled bonds are also subject to reporting requirements and are usually accompanied by industry firms that provide formal opinion that may give investors comfort that allocating to such strategies is consistent with their objectives. While this accountability may not be as explicit when it comes to unlabeled bonds, issuers taking a holistic approach to development often have comprehensive frameworks that helps investors determine what the unlabeled universe supports and how. For example, as noted in Paragraph 22, development finance institution issuance may be deemed to be universally acceptable given their missions. Indeed, such institutions are increasingly working with investors by publishing information on the types of projects that have been funded by their issuance, even though the issuance may not be labelled[9].

32. Depending on the availability, and as the implementation progresses towards mature stages, the Trustee aims to leverage this accountability and transparency by reporting separately on the Strategy from an impact perspective so that GEF participants can have a clearer idea of the development impact their portfolios is making. This reporting would be distinct from the traditional risk and financial reports provided by the Trustee. Given the diversity of information provided by issuers, there is currently no way that impact reporting can be reliably standardized and aggregated at the portfolio level to provide information on portfolio GHG reductions, or number of jobs created for example. However, the Strategy would aim to invest in securities that would, at least at the outset, allow reporting on the types of project supported and, where available, specific project examples. <u>This ability to report on the Strategy from an impact perspective would be a tangible enhancement of the ESG reporting noted in paragraph 16, which is limited to issuer-level aggregate ratings and cannot capture the nuance of the on-the-groundwork supported by sustainable bonds.</u>

[9] For examples, see https://www.kfw.de/KfW-Group/Investor-Relations/US-Reporting/, http://pubdocs.worldbank.org/en/138051589440217749/World-Bank-Sustainable-Development-Bond-Impact-Report-2019.pdf, https://www.adb.org/sites/default/files/publication/297141/adb-green-bonds-newsletter-2020.pdf

V. Conclusion

33. The Sustainable Bond Strategy will, to the most extent, further GEF's development mission with increased emphasis on integration and sustainability. The strategy itself will not meaningfully alter the risk return profile of the GEF investment assets, with the implementation focusing on the SSA bonds under the World Bank's existing authorizations and guidelines, thus making the strategy implementable right away.

34. It is worth noting that ESG Integration, as a baseline SRI option, has already been applied to the GEF investment assets since July 2019. Even without applying the proposed Sustainable Bond Strategy, the current SRI option of ESG Integration already effectively responds to the GEF-7 policy recommendation to develop SRI options in line with the GEF's mandate and ESG aspirations.

35. Trustee's proposed Sustainable Bond Strategy and the default ESG Integration approach already in implementation since July 2019, collectively address the GEF-7 policy recommendation for the Trustee to develop options for a responsible investment strategy for the financial management of the GEF funds held in trust.