TIAA-CREF Asset Management

How buying bonds helped save the lives of 6 million kids in least-developed nations

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Article Highlights:

- Socially responsible investing has evolved and now includes investments that can have a tangible social benefit.
- Some of these investments are known as "vaccine bonds."
- Vaccine bonds are sold to investors around the world in different structures and currencies.
- These bonds help fund vaccination programs now using money that donor nations have pledged but won't deliver for years into the future.

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Investing is an important topic for everyone to understand, but it's not often that investing actually helps save someone's life, much less the lives of millions.

In some cases, however, that's the impact that socially responsible investing (SRI) can have. SRI has been a part of the investment landscape for about 20 years, and over that time it has developed and matured greatly. SRI originally involved excluding companies that make products or engage in behavior with negative social consequences. Since then, it has evolved into an investment strategy that seeks to have a positive impact on the world by providing funds for projects that offer solutions to social and environmental issues, such as alternative energy, affordable housing and clean water facilities.

This style of SRI investing is sometimes referred to as "impact investing" or "proactive social investment." At TIAA-CREF, we have developed a proprietary framework to evaluate these types of securities. Among these investments are a little-known type of security called "vaccine bonds," which are included in our SRI portfolios. These bonds allow investors to have a direct impact on the lives of children in the world's least-developed countries.

How vaccine bonds work

In 2000, the world's vaccination programs were losing their momentum. While the World Health Organization's Expanded Programme on Immunization had been up and running for more than 20 years, there were still tens of millions of children who lacked proper immunizations for diseases that had been mostly eradicated in

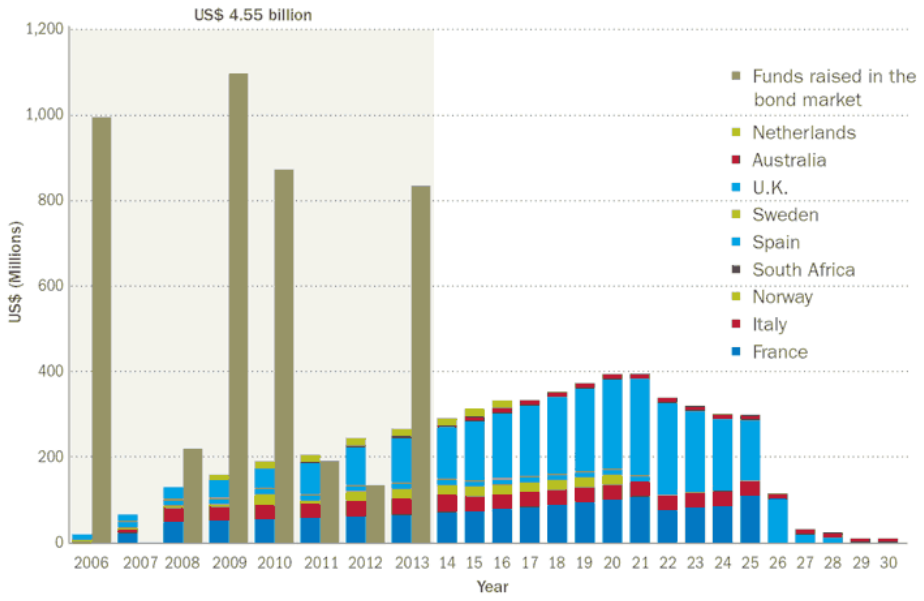
Financial Services

the developed world, such as yellow fever and polio. Immunization coverage had stopped expanding, and was even declining in some areas.

The Bill & Melinda Gates Foundation responded to pleas for help by World Bank President James Wolfensohn with a $750 million pledge to create a new public/private partnership called GAVI, the Global Alliance for Vaccines and Immunization. It brought together governments, United Nations agencies and private-sector vaccine makers to improve immunization coverage and find a way to pay for desperately needed vaccines.

Since 2006, the United Kingdom, France and seven other nations have pledged about $6.3 billion to GAVI, but GAVI won't actually receive those funds until years, sometimes decades, in the future. As with many health issues, time is of the essence, and to make those funds available much sooner, the U.K. government created the International Finance Facility for Immunizations (IFFIm) based in London. IFFIm fashions GAVI's funding pledges into legally binding grant agreements and sells bonds against those agreements so that the vaccines can be purchased and delivered without waiting years for the money to arrive from donor nations.

GAVI Funding Pledges and Bond Sales



Source: IFFIm

To win investors' confidence, IFFIm keeps a cushion between the amount of bonds it has sold and the amount of money pledged in case its pledges are delayed or canceled; its policy is to sell bonds up to 57% of the net present value of the pledges it has received. It also keeps enough cash on hand for a year's worth of interest and principal repayments, just in case. Those conservative policies and backing from donor nations like the U.K. and France allow IFFIm bonds to receive a strong credit rating; Moody's rates their bonds Aa1, its second-highest rating, while Standard & Poor's rates them AA, its third-highest rating, and Fitch AA+, its second-highest rating.

IFFIm is a sophisticated operation and it uses the same techniques as major banks and other corporations to borrow money at the lowest possible cost. (The World Bank's International Bank for Reconstruction and Development acts as the IFFIm's treasury manager.) The IFFIm's first issue was in 2006, a five-year note for US$1 billion that paid 5.0% interest and drew bids from a wide range of investors located around the world. Since then, IFFIm has gone on to issue bonds in a variety of foreign currencies and structures, including zero coupon and floating-rate notes, that are designed to lower its overall funding costs. It makes frequent use of "uradashi bonds," which are bonds sold to retail investors in Japan, where interest rates are extremely low, denominated in high-interest-rate currencies like the South African rand or the Turkish lira. The bonds pay a relatively high interest rate – 8.3% for a three-year note issued in Brazilian reals – to investors, but IFFIm minimizes its interest expense through currency swaps. So far, it has raised about $4.5 billion against its pledged funds at an average interest cost of 0.83%. In total, IFFIm funding has allowed GAVI to nearly double its health program expenditures, disbursing $2.3 billion to support the purchase and delivery of vaccines for 71 developing countries.

Making a difference with socially responsible investing

From an investor's perspective, "vaccine bonds" have performed well given the dual benefit of attractive relative value and positive social impact. While IFFIm is interested in obtaining financing at the lowest possible cost, it is equally interested in maintaining a broad base of investors around the world, and it takes great care to understand current market dynamics and what investors are looking for to assure its next offering attracts strong demand. So far, it appears to be successful. Due to the rapidly growing interest in socially responsible investing as well as these bonds' unique purpose and strong credit rating, demand for vaccine bonds often far outstrips available supply. For example, a new issue might receive three-to-five times more offers to buy than there are bonds available.

Overall, vaccine bonds offer an attractive package for investors interested in social responsibility. GAVI estimates that it has provided vaccines to 440 million children and prevented six million deaths. Between 2016 and 2020, it aims to reach another 300 million children and prevent an additional five-to-six million deaths. Now that's putting money to work, for both investors and society.

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