

---

Subject                      **Investment Committee Chair Report**

---

Category                    **For Information**

---

### **Section A: Introduction**

- This report provides the Board with an overview of the activities of the Investment Committee since the Committee Chair last reported to the Board in December 2022.
- The total portfolio value is US\$ 1.2 billion. There is US\$ 17 million of cash outside of the long-term portfolio with Gavi's Swiss custodian available for immediate investment.
- The financial markets experienced market volatility across equity and fixed income markets but still had positive gains year-to-date after brutal performance last year. Since the end of 2022, US headline inflation steadily declined from 6.5% to the current 4.0% (end of May). This decline ignited a significant run-up by growth stocks. To show the scale of outperformance, the tech-heavy Nasdaq 100 Index returned 21.4% vs S&P 500's return of 9.2% as of the end of April, and the trend continues. The inflation rate, while falling, remains above central bank targets.
- The increase in interest rates sparked market instability with the failure or an orderly winddown of several US banks. Gavi's long-term portfolio suffered minimal impact and the Investments team reported the impact to the Investment Committee and the senior management team.
- The long-term portfolio had a year-to-date return of +3.9% versus the policy benchmark return of +4.6% as of 30 April 2023. Gavi's Equity and Diversifiers assets contributed to the year-to-date portfolio underperformance. The Fixed Income assets modestly outperformed its composite benchmark. For trailing 1 year, 3 years' and 5 years' annualised periods, the long-term portfolio outperformed its policy index.
- The Equity composite underperformed with a return of +6.5% versus its benchmark return of +8.3%. A long-short technology-focused fund and a market-neutral strategy were the main contributors to the equity underperformance. The former has been terminated for underperformance. A growth equity fund with a focus on shareholder engagement and a US index fund were significant outperformers relative to the composite benchmark.
- The Diversifiers composite underperformed with a return of -0.7% versus its benchmark return of +1.0%. A -9.3% return from a systematic trend-following strategy contributed significantly to the underperformance. This fund had a substantial risk allocation to higher interest rates and the drop in global yields during March's banking turmoil hurt their performance. The manager of the fund

underperformed. The Investments team cut this fund exposure in half at the end of 2022 and subsequently in Q2 2023 received approval for termination. The bright spot is a YTD + 8.9% return from a commodity relative value fund.

- The Fixed Income composite outperformed with a return of +3.7% versus its benchmark return of +3.5%. High Quality Fixed Income underperformed due to a shorter than benchmark duration. Yield Seeking Fixed Income outperformed with positive contribution from private credit funds, a macro fund, and a European credit strategy.
- As a reminder, in June 2022, Gavi adopted a revised Investment Policy and Asset Allocation Statement. The purpose of the revisions is to reflect an update in the return prospects of the long-term portfolio with the introduction of a 12% allocation to private assets (i.e., private equity and real estate), and an expected improvement in the trade-off between illiquidity and return premium.
- Based on market conditions stemming from the dislocation of financial markets in 2022 and the quality of the private equity managers fundraising in 2023, private equity is more attractive than real estate. The Investments team worked closely with the Committee on the development of a private equity philosophy and an annual pacing analysis to provide discipline to private equity investing where fund raising schedules can have aggressive timelines. In addition, at the May 2023 meeting, the Committee discussed additional principles and guidelines to ensure a common understanding of the risk profile for Gavi's private equity allocation. The Committee reviewed conservative, moderate, and aggressive risk profiles and agreed to move forward with a moderate risk profile in private equity implementation.
- The Committee approved Gavi's first private equity investment in January 2023. In addition, the Committee provisionally approved two additional private equity managers that will conclude fundraising by Q4 2023/Q1 2024. An initial review of real estate will occur at the end of 2023.
- On a semi-annual basis, the Investments team conducts a sustainable investment screening of investment strategies, and this stream of work requires access to an external service provider. Per the Gavi procurement rules, the services should receive a competitive review. At the same time, it provides an opportunity to conduct a landscape analysis of how other institutional investors, including Gavi's partners, implement sustainable investing.
- The Investment Committee Chair report is attached in the form of a presentation as Annex A.

## **Annexes**

### **Annex A: Investment Committee Chair report**

# INVESTMENT COMMITTEE CHAIR REPORT

BOARD MEETING

**Yibing Wu**

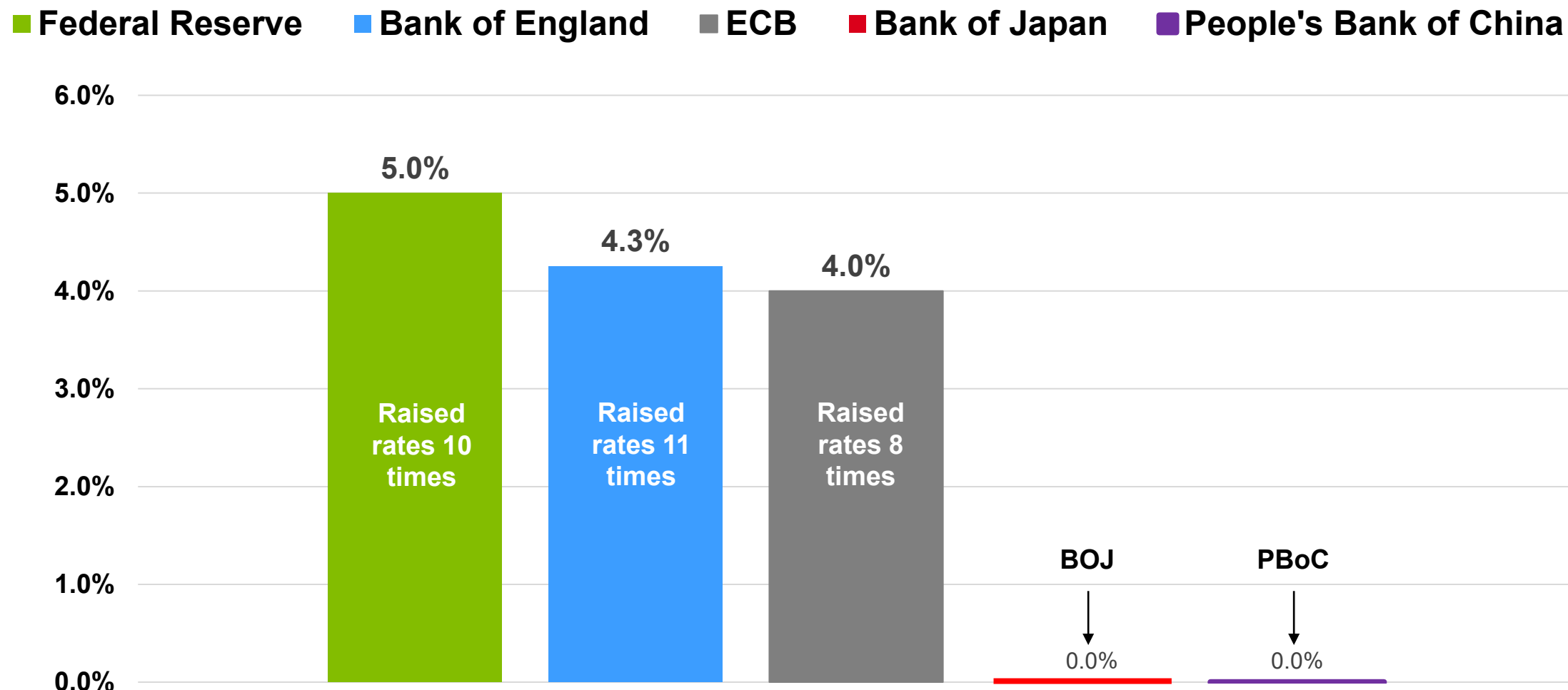
26-27 June 2023, Geneva, Switzerland

[gavi.org](https://gavi.org)



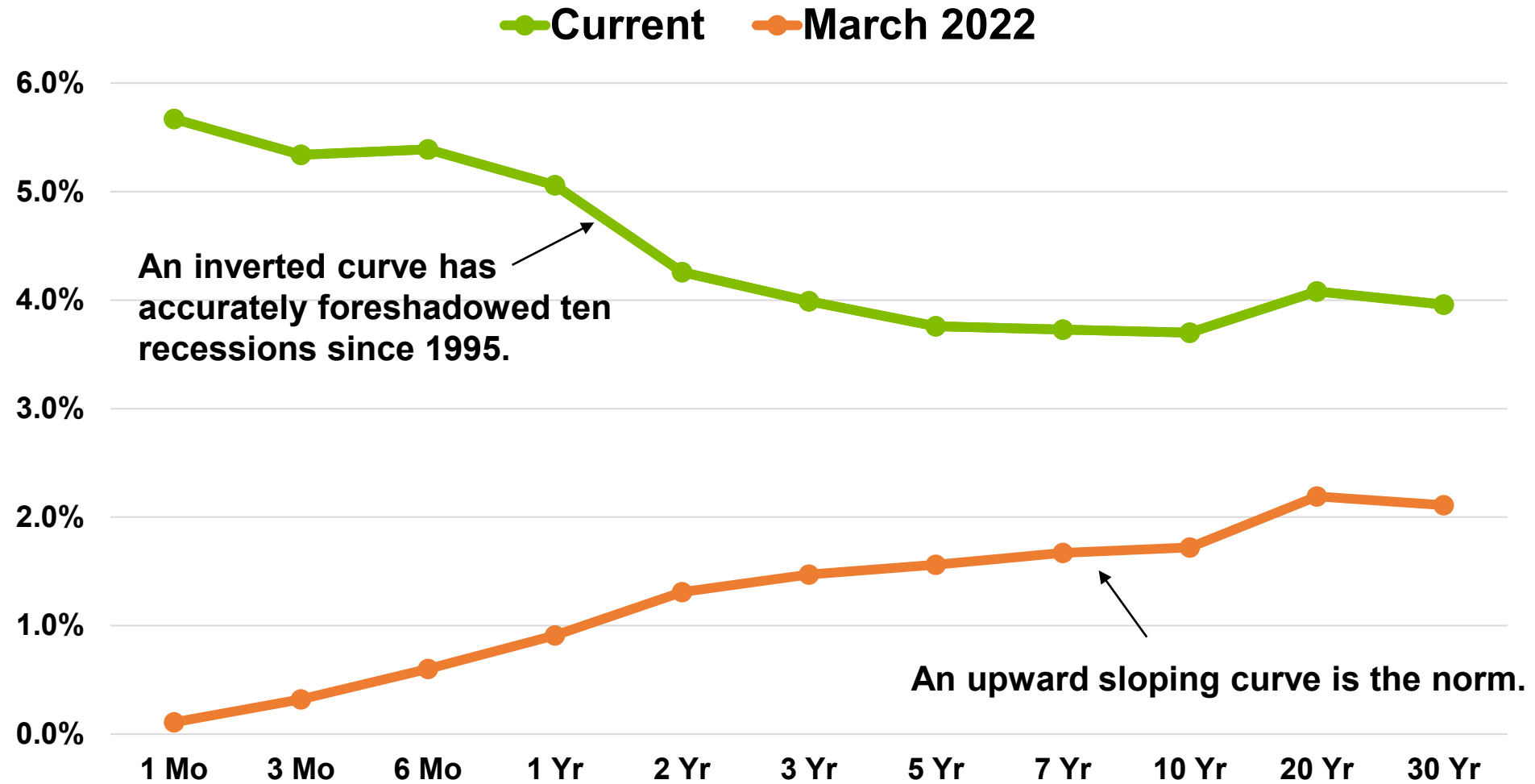
# Central Bank Moves Since January 2022

Annex A



Note: Data as of 15 June 2023.

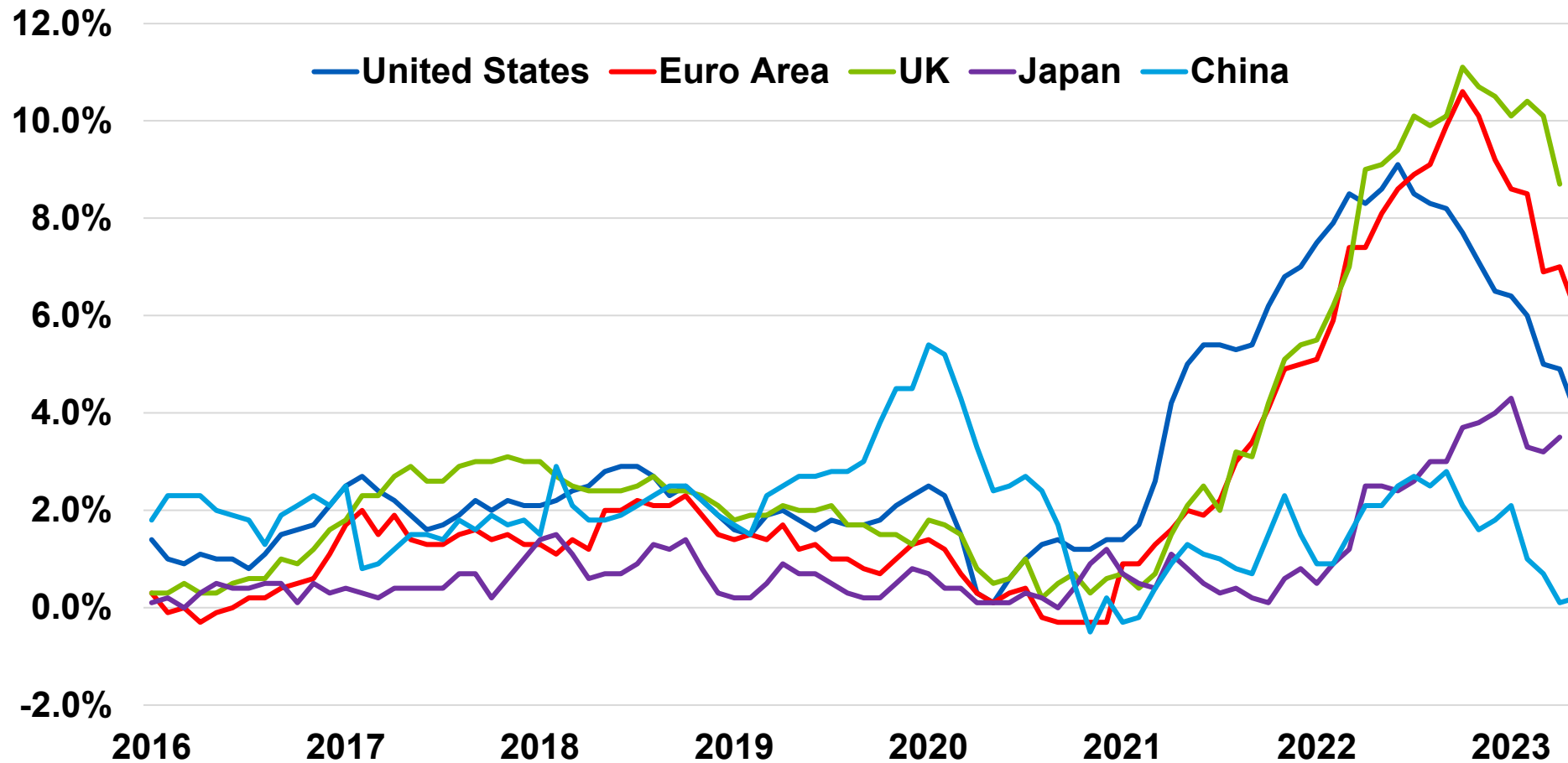
# What Does The U.S. Yield Curve Tell Us?



Federal Reserve Data as of 23 May 2023

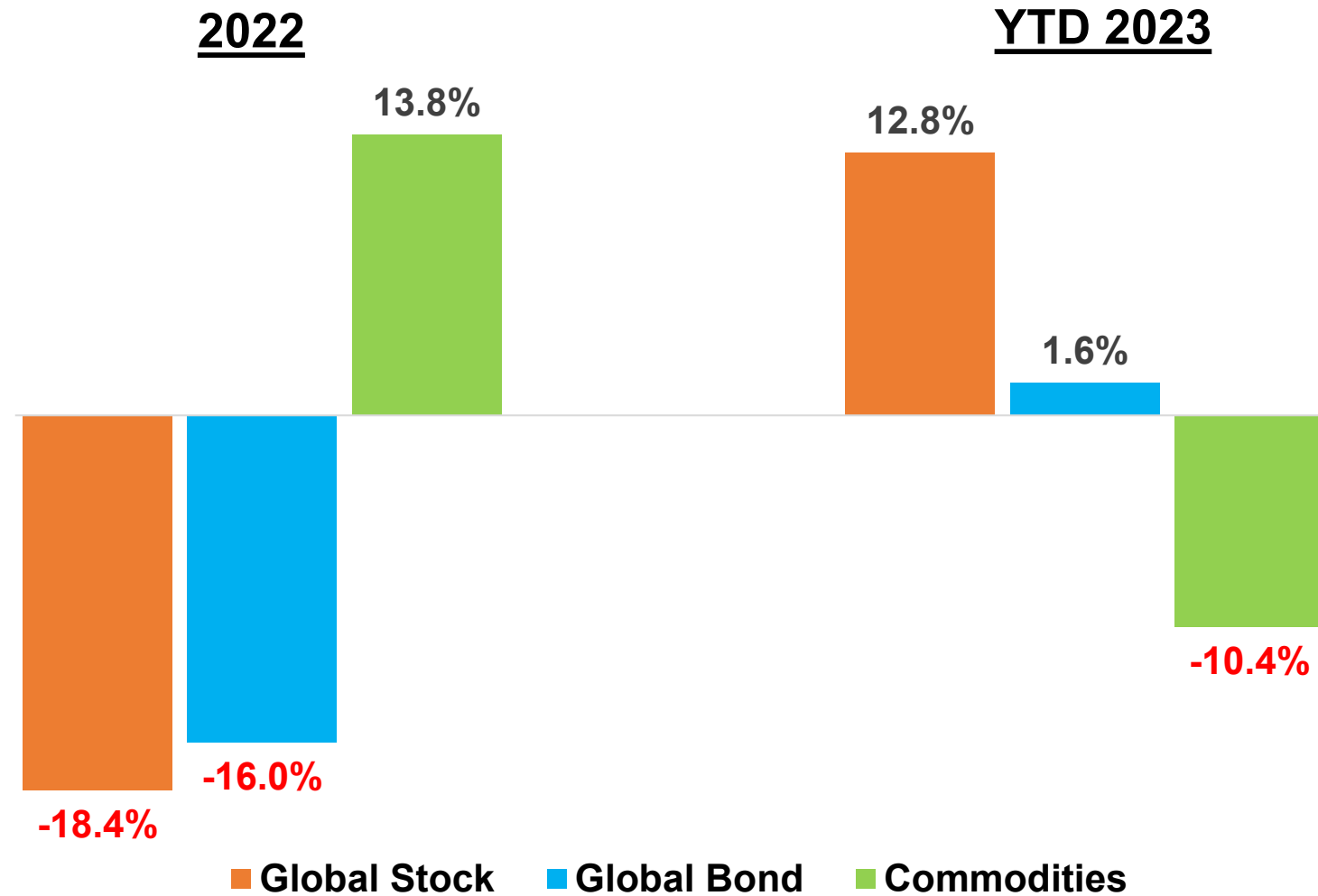
# Inflation Has Peaked

Inflation Rate (CPI YOY)



Bloomberg data through May 2023

# Global Financial Market Performance



Data as of 13 June 2023

**Stock:** Global Equity Benchmark MSCI ACWI IMI Net USD Index

**Bond:** Global Bond Benchmark Bloomberg Multiverse Index

**Commodities:** Commodity Benchmark Bloomberg Commodity Index

# Long-Term Portfolio Performance

Annex A

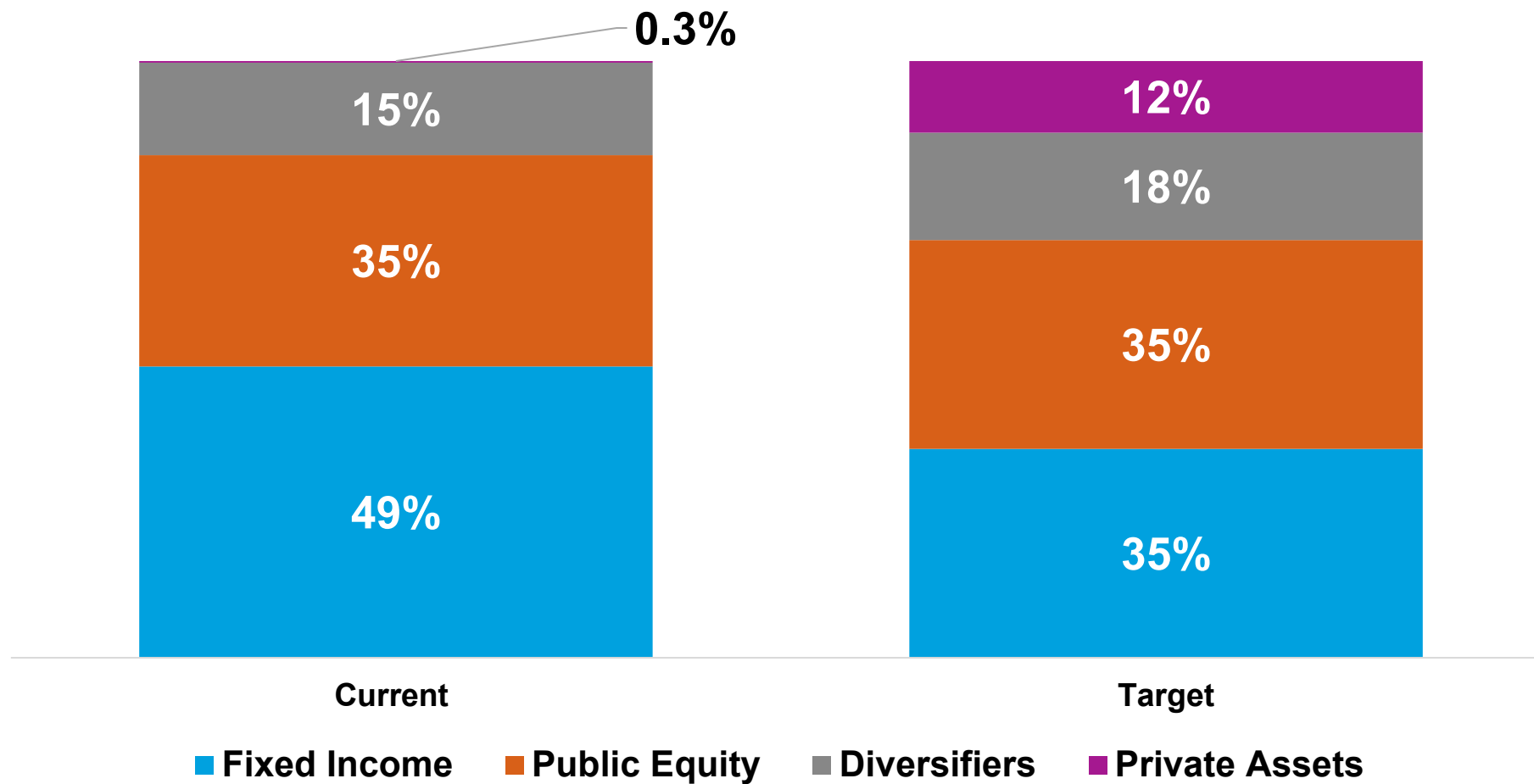
Exposure vs. Benchmark	YTD	1 Yr	3 Yrs	5 Yrs
<b>Fixed Income</b>	<b>3.7%</b>	<b>0.9%</b>	<b>4.2%</b>	<b>2.7%</b>
High Quality	2.9%	(0.3%)	(0.5%)	1.6%
Yield Seeking	4.5%	3.0%	9.4%	5.1%
<i>Barclays Multiverse</i>	<i>3.5%</i>	<i>(2.2%)</i>	<i>(3.6%)</i>	<i>(0.8%)</i>
<b>Equity</b>	<b>6.5%</b>	<b>(0.5%)</b>	<b>11.2%</b>	<b>6.3%</b>
<i>MSCI ACWI IMI</i>	<i>8.3%</i>	<i>1.6%</i>	<i>12.2%</i>	<i>6.7%</i>
<b>Diversifiers</b>	<b>(0.7%)</b>	<b>1.5%</b>	<b>5.6%</b>	<b>5.1%</b>
<i>Credit Suisse Multi-Strategy</i>	<i>1.0%</i>	<i>(2.0%)</i>	<i>6.7%</i>	<i>3.9%</i>
<b>Private Assets</b>	<b>0.0%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
<b>Long-term Portfolio</b>	<b>3.9%</b>	<b>1.3%</b>	<b>6.7%</b>	<b>4.4%</b>
<i>Policy Index</i>	<i>4.6%</i>	<i>(0.2%)</i>	<i>2.9%</i>	<i>2.9%</i>
<b>Difference</b>	<b>(0.7%)</b>	<b>1.5%</b>	<b>3.8%</b>	<b>1.5%</b>

Data as of 30 April 2023.



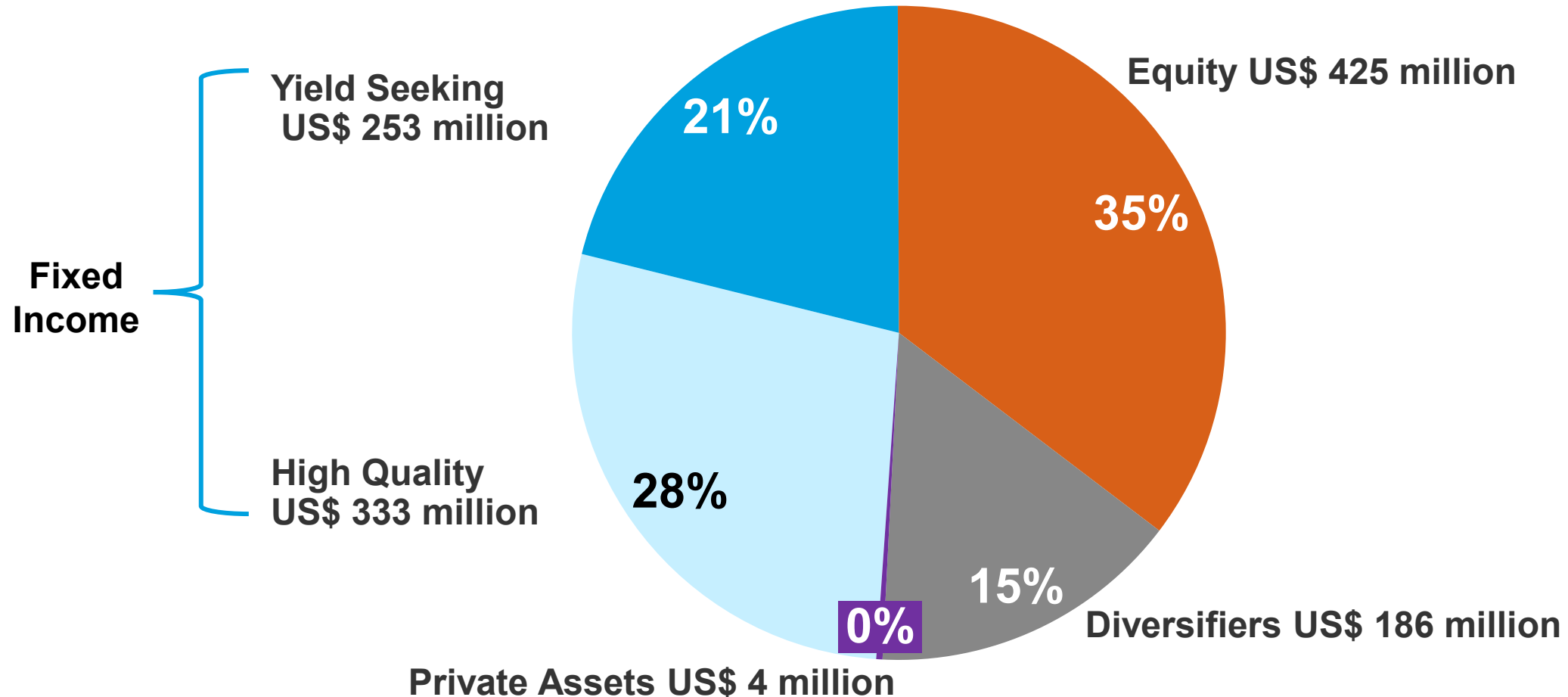
# Current Asset Allocation vs Policy Target Weights

Annex A



Data as of April 2023

# Gavi Portfolio Allocation (US\$ 1.2 B)<sup>1,2</sup>



Data as of 30 April 2023

(1) Excludes US\$ 17 million at custodian bank .

(2) Excludes UNICEF Procurement account of \$1,744 M, IFFIm assets and \$154 M in operating cash.

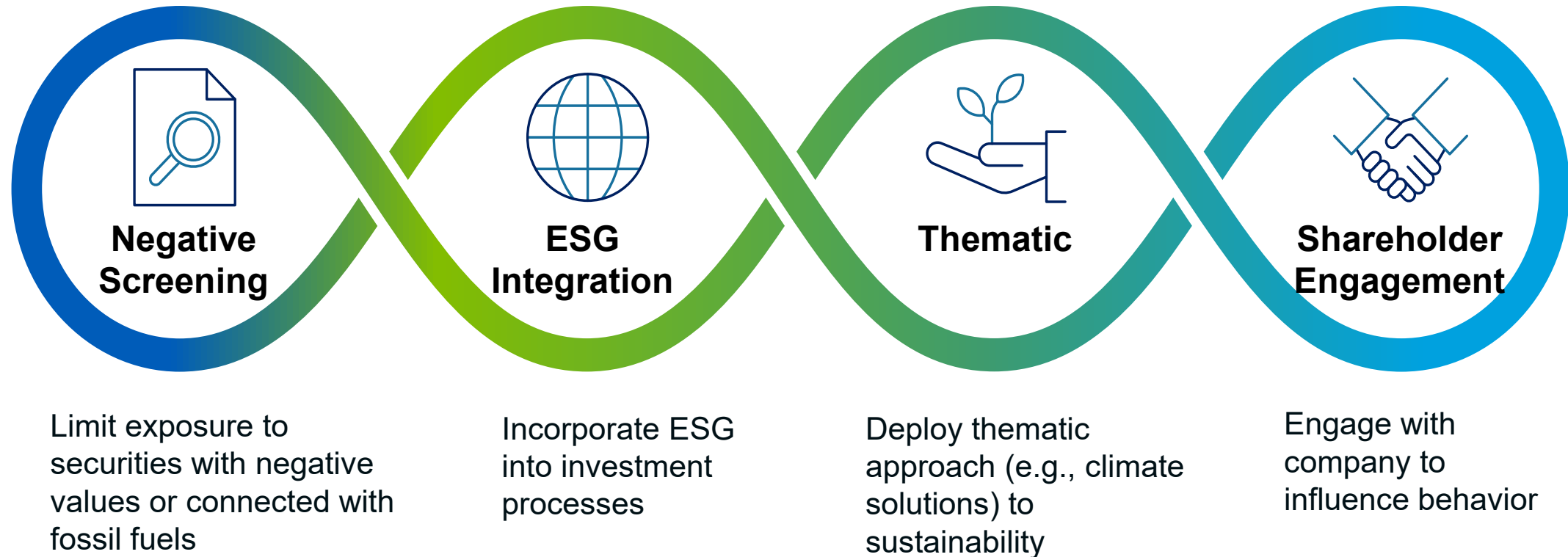
# Private Equity Implementation

Annex A

	Diversified	Core/Satellite	Total Return
<b>Managers</b>	Fund-of-funds, fewer managers	Fund-of-funds in early years, complemented by direct top tier managers	Direct top tier managers
<b>Control</b>	Low	Medium	High
<b>Horizon</b>	15+ years	10-15 years	10-15 years
<b>Risk / Returns</b>	Low	Medium	High

# Sustainable Investment Policy Under Review

Annex A



**Gavi employs all four sustainable investment practices. Our approach is aligned with Gavi's mission and reviewed periodically.**

Source: NEPC

# Investment Team's 2023 Activities



# Appendix

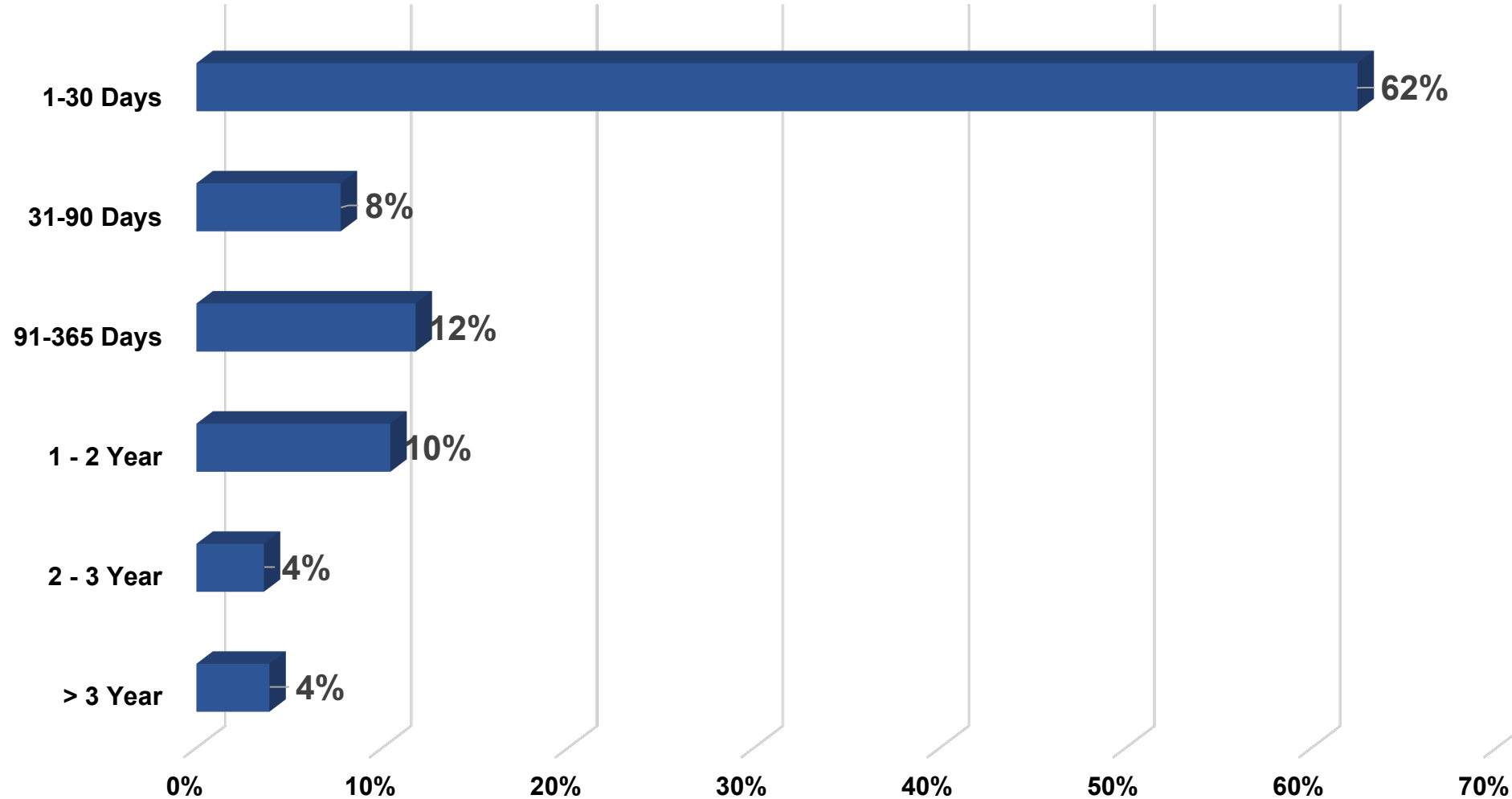
# Long-Term Portfolio Monthly Returns

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
January	-0.14%	0.64%	-2.01%	1.47%	1.33%	2.77%	0.76%	-0.71%	-2.36%	3.11%
February	2.10%	1.71%	-0.43%	1.41%	-1.84%	0.90%	-1.77%	0.86%	-1.75%	-0.82%
March	0.13%	-0.08%	3.33%	0.60%	0.07%	1.33%	-9.71%	0.09%	-0.22%	0.82%
April	0.60%	1.02%	1.24%	1.14%	-0.01%	0.88%	4.56%	1.94%	-1.90%	0.74%
May	1.43%	0.03%	0.42%	1.04%	-0.60%	-0.14%	3.26%	1.10%	-0.47%	
June	1.01%	-1.36%	0.17%	0.58%	-0.52%	2.43%	2.47%	1.02%	-3.20%	
July	-0.54%	-0.07%	1.81%	1.26%	0.76%	0.69%	2.67%	0.69%	2.38%	
August	1.29%	-2.79%	0.65%	1.00%	0.06%	-0.36%	1.84%	1.31%	-0.94%	
September	-1.76%	-1.76%	0.60%	0.43%	0.31%	-0.34%	-0.49%	-0.52%	-3.71%	
October	0.78%	2.80%	-0.21%	0.65%	-2.08%	0.87%	-0.33%	1.23%	1.23%	
November	0.51%	-0.28%	-0.52%	0.58%	-0.19%	0.96%	4.28%	-0.93%	2.46%	
December	-1.20%	-1.25%	1.30%	0.96%	-0.50%	1.75%	3.23%	1.67%	-0.35%	
	Greater than +1.5%		Between 0% and +1.5%			Between -1.5% and 0%			Less than -1.5%	

Data as of 30 April 2023.

# Long-Term Portfolio Full Redemption Liquidity

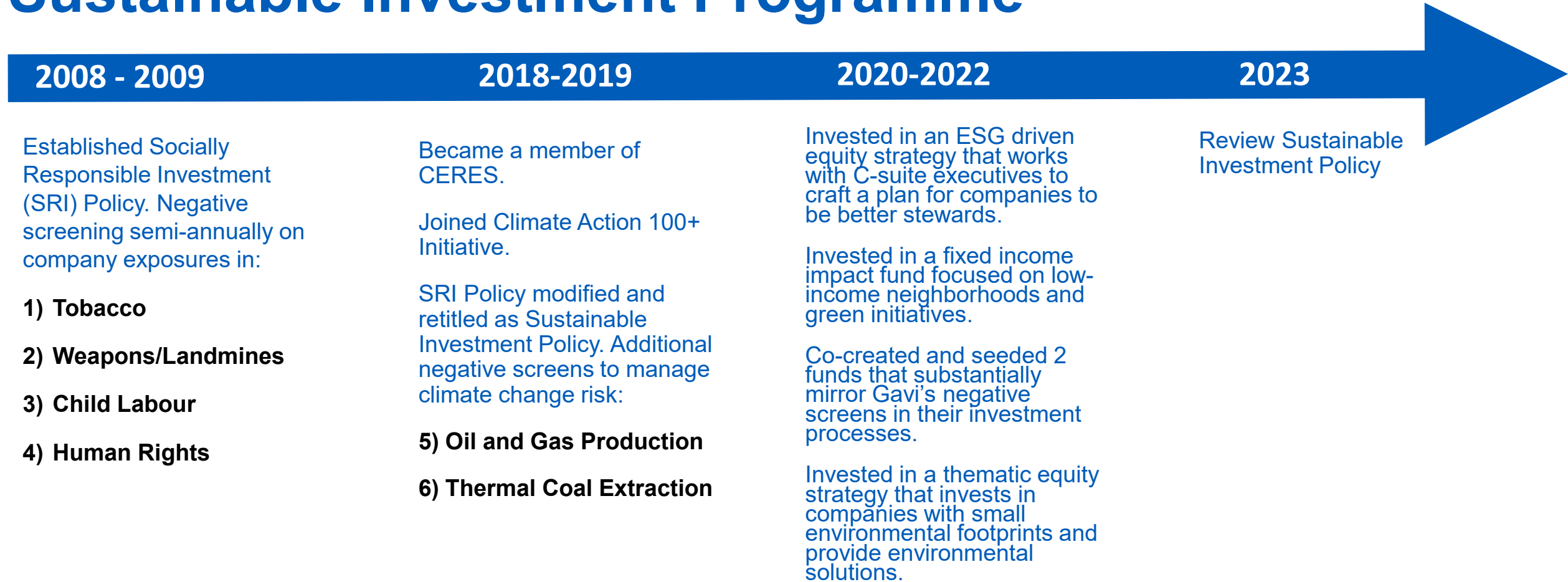
62% of the Gavi Portfolio has full liquidity of 30 days or less



Data as of April 2023



# Sustainable Investment Programme



CERES is a collaborative network of investors, companies and nonprofits focused on sustainability. Climate Action 100+: working to ensure top 100 emitters of GHG take actions on climate change.

# Private Equity Philosophy Grid

Annex A

GUIDANCE ON GOVERNANCE AND DECISION MAKING. GOAL IS FOR STRAIGHTFORWARD APPROVALS AND CLEAR GUIDELINES

	Discussion	Comments
<b>Manager approval(s)</b>	<ul style="list-style-type: none"> <li>At regular IC Meeting</li> <li>Via email/other meeting</li> </ul>	<ul style="list-style-type: none"> <li>Unanimous approval or majority with no objections</li> <li>Email votes require response within seven days and can be approved by majority vote</li> <li>No response to email assumes no objection</li> </ul>
<b>Return Expectations</b>	<ul style="list-style-type: none"> <li>Premium to public markets</li> <li>Top quartile returns</li> </ul>	<ul style="list-style-type: none"> <li>Consistent return profile</li> <li>Quarterly reporting to include IRR<sup>1</sup>, PME<sup>2</sup> and ranks</li> </ul>
<b>Strategy Diversification</b>	<ul style="list-style-type: none"> <li>Venture, Growth, Buyouts</li> <li>Select use of Secondaries</li> </ul>	<ul style="list-style-type: none"> <li>Consider market opportunities and universe weight</li> <li>Use Secondaries to build out/diversify exposure</li> <li>Subsector and industry specialists will be used</li> <li>Impact/Sustainability specialists will be considered</li> </ul>
<b>Manager Diversification</b>	<ul style="list-style-type: none"> <li>Number of Strategies</li> <li>Number of Managers Overall</li> </ul>	<ul style="list-style-type: none"> <li>Endeavour to manage the number of new relationships</li> <li>Look to re-up with top managers</li> <li>Over time, limit single manager exposure to 25% of total commitments</li> <li>Fund of funds can be used, however, be mindful of fund life</li> </ul>
<b>Commitment Sizing</b>	<ul style="list-style-type: none"> <li>Based on annual pacing</li> <li>Based on sector/strategy</li> </ul>	<ul style="list-style-type: none"> <li>Based on annual pacing, strategy and opportunity</li> <li>Limit of 15% of total fund commitments</li> </ul>
<b>Minimum AUM</b>	<ul style="list-style-type: none"> <li>Minimum Firm AUM</li> <li>Minimum Strategy AUM</li> </ul>	<ul style="list-style-type: none"> <li>Firm AUM ranges: Minimum of US\$ 500 million</li> <li>Strategy AUM ranges: Minimum of US\$ 150 million</li> <li>Lower and Upper bounds will be reviewed case by case</li> </ul>
<b>Minimum Track Record</b>	<ul style="list-style-type: none"> <li>First time funds</li> <li>New firms/Spin outs</li> </ul>	<ul style="list-style-type: none"> <li>First time funds and spinouts may be considered</li> <li>Diverse owned/led firms may be considered</li> </ul>

1. NEPC will provide quarterly reporting summarizing strategy, commitment, cash flows, value and performance metrics such as IRR, DPI, TVPI and PME.

2. Public Markets Equivalent (PME) compares private equity performance to public market equivalent indices.

# Thank you