

Gavi Alliance Investment Committee Meeting

4 May 2016

Teleconference

1. Chair's report

- 1.1 Finding a quorum of members present, the meeting commenced at 14.00 Geneva time on 4 May 2016. Stephen Zinser, Investment Committee Chair, chaired the meeting.
- 1.2 Standing declarations of interest were tabled to the Committee (Doc 1a in the Committee pack).
- 1.3 The Committee reviewed the minutes of its meeting on 12 February 2016 (Doc 1b), which were approved by no-objection on 11 April 2016.
- 1.4 The Committee noted its forward workplan (Doc 1c).

2 Investment portfolio and SRI reviews

- 2.1 Jeanne Shen, Chief Investment Officer, highlighted that the presentation was divided into two main topics: the investment portfolio review, and the Socially Responsible Investment (SRI) screening results and alternative options for implementing Environmental, Social and Governance (ESG) engagement. She noted NEPC consultants were also present should Committee members wish to address their questions directly to them.

Investment portfolio review

- 2.2 Ms Shen reported to the Committee on the investment portfolio including market and strategy reviews, an overview of the major exposures in the portfolio, contribution to mission, fixed income allocation, key characteristics of each portfolio exposure, and performance of the total portfolio as well as individual managers (Doc 2).
- 2.3 A question was raised with regard to a fund of hedge funds manager in the long-term portfolio to be redeemed in 2016 and its performance. Ms Shen highlighted that the manager's recent performance suffered challenges and the decision to redeem was a strategic one. Investment Committee members were informed that a US large cap growth equity manager had experienced recent underperformance that was not on a formal watch list, though it will be followed up closely.

- 2.4 Ms Shen provided an update to the Committee on a manager mentioned at the last Committee meeting (see 2.4 in the 12 February 2016 Committee meeting minutes). She noted that the newly hired long-short commodities manager categorized under tactical assets had been meeting expectations. Overall, the portfolio in 2015 did suffer from the exposure of one specific manager where Gavi has exposure across two strategies that exhibited higher correlation than expected to general market volatility.
- 2.5 The Chair commented that the further recovery of the market will likely be reflected in the portfolio's performance figures for April. He also noted that the portfolio configuration has been stable given its rather conservative allocations, limiting negative results.
- 2.6 Ms Shen then reviewed the performance of the fund of hedge funds manager due for redemption as discussed in 2.3. Christopher Klapinsky, Sebastian Grzejka and Dulari Pancholi from NEPC concurred with the Secretariat's recommendation considering the significant drop of return from this manager due to its exposure to currently challenged sectors. NEPC commented on one specific underlying manager whose performance suffered as a result of commodity-related positions. Ms Shen also reviewed the strategy of a risk parity manager which was redeemed in April 2016. To a comment from a Committee member on the negative performance of an inflation hedge strategy situated in the multi-exposure segment of the portfolio over the past few years, Ms Shen recognised that it had a negative impact on the portfolio recently but assured the Committee that it provided positive returns since inception.
- 2.7 Ms Shen provided an overview of the portfolio developments following the Committee February meeting. She confirmed the investment of US\$ 49 million in one manager and \$25 million in another manager.
- 2.8 As agreed in February, the Committee Chair and Ms Shen discussed with the founder of a current ABS and MBS oriented fund to determine whether to increase Gavi's allocation, and confirmed that a potential additional allocation to this fund was placed on hold following its Q1 results. The Chair added that he would wish to be kept in touch with the ongoing performance of this manager.
- 2.9 Ms Shen reminded the Committee that a current long-short commodities manager in which an additional \$10 million was to be invested as part of a scaled investment, announced that it was closed after several large investments by pension funds, and the request is on the manager's wait list.
- 2.10 Finally, Ms Shen provided an update on the redemption of the manager as discussed in 2.6, expecting a full redemption by 1 June 2016. To a question from a Committee member, Ms Shen informed the Committee that this manager allows monthly redemptions, noting the proceeds should be available by mid-June. The Committee agreed with the proposed timeline, recognising June could be a volatile month so the timeline could be adjusted following Ms Shen's judgement.

- 2.11 Ms Shen then provided a detailed review of the Secretariat's four recommendations for potential opportunities to the portfolio. Ms Shen reviewed the rationale for the proposed asset allocations and discussed the types of investment strategies for the Committee to consider as follows:
- 2.11.1 The first recommendation was to add an additional ultra-short term fund from a current manager for the short term portfolio, to stay in line with the Asset Allocation Statement on limiting the portfolio's exposure to one manager up to 20%. An on-site due diligence visit was performed in March. Although the fund is new and smaller than an existing comparable strategy in the short term portfolio, it has good potential for growth. To a question from a Committee member, Ms Shen confirmed the 20% rule is based on the combined market value of the short and long-term portfolios, excluding the UNICEF procurement account. She also indicated that the Secretariat looked into two other existing managers before selecting the proposed manager, who maintains high credit quality and the desired liquidity terms. The allocation amount is still to be determined. The Committee agreed that the fund had a growth capacity and **approved the recommendation.**
- 2.11.2 The second recommendation for the long-term portfolio was to redeem an index short-term bond fund and invest the US\$ 47 million proceeds into an inflation-protected securities strategy from the same manager. An on-site due diligence was performed in March and the recommendation is based on several factors including duration, a lower volatility, and cost-effectiveness. The Chair reminded the Committee of a discussion with NEPC at the last meeting on deciding whether to invest in the inflation-protected securities or a long US Treasury fund. NEPC confirmed that there has been a re-valuation in long Treasuries since the last meeting. Investment Committee members had no further comments and **approved the recommendation.**
- 2.11.3 The third recommendation was to add US\$ 20 million to an existing total return fund. Ms Shen provided positive feedback on this manager following an on-site due diligence visit in April. To a question from the Chair, Ms Shen confirmed that the money to be invested was from the manager that was partly redeemed in April. When asked if the credit quality of the proposed manager would expose the portfolio to weaker credit. Ms Shen answered it was possible but noted that the manager's fund was very measured, fairly liquid and its yield provides a buffer to its lower credit quality. The Chair concurred that the manager has a low volatility and overall agreed with the recommendation to allocate over time. The Committee **approved the recommendation.**
- 2.11.4 The fourth and last recommendation was to redeem funds in the emerging markets and frontier markets portfolios in the amount of US\$ 22.5 million and invest the proceeds plus an additional amount for a total of US\$ 25 million in an emerging markets small cap equity strategy. The Investment team performed an internal evaluation and identified that one larger allocation was preferred to two smaller ones. The proposed manager visited Gavi's office several times and is on NEPC's recommended list. To a question from a Committee member, Ms Shen confirmed that moving from two managers to one manager was to control the number of managers that the Investments team has to monitor, and to move away from

managers who breached the Socially Responsible Investment (SRI) 2% limit, and given their low turnover may continue to breach the 2% limit. The Chair noted that the proposed manager has diversified holdings and it was consistent with the previous portfolio recommendations made by NEPC to get a consumer-facing focus in emerging markets equities. The Committee **approved the recommendation**.

- 2.12 Ms Shen reviewed the performance of potential new managers and informed the Committee that she may request before its next meeting planned in July, the Committee's approval by email to authorise an allocation to one or more of these managers.

Socially Responsible Investment (SRI) review

- 2.13 Ms Shen presented an overview of SRI-included and exempt managers. She highlighted the Investment team had already screened 37% of the long-term portfolio (SRI-Included managers). Reasons managers being specifically SRI exempt varied from passively managed index funds to not holding individual corporate securities, i.e. the SRI issue is not relevant or applicable to the underlying holdings.
- 2.14 Ms Shen reported that the semi-annual screening in December 2015 highlighted that three managers breached the 2% limit, two of them breaching the limit twice consecutively. She shared with the Committee members the findings of the internal evaluation, describing the manager's ineligible holdings. Ms Shen also shared specific explanations based on the research provided by Gavi's SRI consultant Sustainalytics. Dr Seth Berkley reiterated that the health-related screens were particularly relevant to Gavi's mission. Dr Berkley highlighted the importance of sharing the SRI policy with managers – both prospective and existing.
- 2.15 A Committee member raised concerns over the holdings of the third manager and asked how long the policy allows a breach before an action can be taken and if the managers are informed of Gavi's SRI policy. Ms Shen answered that managers breaching two consecutive semesters trigger an internal evaluation and that managers are informed of the ineligible securities. She will report back to the Committee to confirm if the SRI policy had been shared in advance with managers. She noted that unlike the two other managers, the third manager's portfolio has high turnover and the ineligible securities may be sold by the next screening. Ms Shen also informed Committee members that Gavi's long-short equity funds have diverse holdings and it is industry standard to screen only the long holdings.
- 2.16 Ms Shen informed the Committee on the recent external ESG discussions. The Investments team reached out to several institutional investors across the US to understand their Environmental, Social and Governance (ESG) practices, and their conclusion that there is no universal methodology. The Committee noted the increasing effort by managers to integrate ESG indicators in their investment process.

- 2.17 Ms Shen shared four alternatives to the current negative screening performed by the Investment team with a comparison analysis for the Committee members' feedback. To a question from the Chair, Ms Shen answered that this research was triggered both by the recent internal audit results and a desire to review the current screening practice. The Committee acknowledged the limitations of Gavi's ability to influence managers of their commingled fund investments.. Ms Shen agreed, and also noted the definitions for responsible investing varied widely among managers.
- 2.18 Investment Committee members suggested that managers be reminded of the Gavi SRI criteria. It was also suggested to ask managers for their holdings during the due diligence process before adding a manager as a routine request. Dr Seth Berkley added that the SRI policy is a risk management tool. The Committee also proposed to identify managers who do not have corporate securities and are by nature compliant into a separate category which would allow a better understanding of the percentage of SRI compliance in the portfolio. Ms Shen will revert at the next Committee meeting with the updated information. The Committee agreed that Option 2 to "*Include ESG policies as a factor in future manager searches*" was the best option.

3 Any other business

- 3.1 The Chair invited Mr David Sidwell, Chair of the Audit and Finance Committee, to provide an update of developments and progress in Gavi's Audit and Investigations team, led by Simon Lamb. The Audit and Investigations team is planning to review all Gavi's high risks by the end of the year. The team audited the Investments team as a routine assessment and there were no high risks to report. Ms Shen added that the five risks highlighted in the audit report are available on the Gavi website. She expected to finalise an agreement with the Internal Audit team on the fourth risk called *Approval of Investment Transactions*. The Investment Committee Chair noted he was satisfied with the audit report results.
- 3.2 Ms Shen thanked her team for its hard work. The Investment Committee complimented Ms Shen on the quality and clarity of her presentation and invited Ms Shen to seek the guidance of the Committee at any time should there be a need.
- 3.3 It was asked about the Secretariat's satisfaction on the work of NEPC and it was agreed that the Committee members and Ms Shen will discuss it aside of the next Investment Committee meeting in July.

After determining there was no further business, the meeting was brought to a close.

Mr Philip Armstrong
Secretary

Attachment A

Participants

Committee Members

- Stephen Zinser, Chair
- William Roedy
- David Sidwell

Regrets

- Yifei Li

Other Board Member attending

- Seth Berkley

Secretariat

- Philip Armstrong
- Rebecca Cruz
- Lauren Cui
- Barry Greene
- Alexandra Laheurte Sloyka
- Jeanne Shen

Guests

- George W. Wellde Jr.
- Christopher Klapinsky, Partner (NEPC)
- Sebastian Grzejka, Consultant (NEPC)
- Dulari Pancholi, Research Consultant, Hedge Funds (NEPC)
- Angela Dawson, Analyst (NEPC)
- Neil Hindle, Egon Zehnder