

Gavi Alliance Investment Committee Meeting

12 May 2020

Virtual Meeting

1. Chair's report

- 1.1 Finding a quorum of members present, the meeting commenced at 14.00 Geneva time on 12 May 2020. Stephen Zinser, Investment Committee Chair, chaired the meeting.
- 1.2 Standing declarations of interest were tabled to the Committee (Doc 01a in the Committee pack).
- 1.3 The minutes of the 12 February 2020 meeting were tabled to the Committee and duly approved (Doc 01b).
- 1.4 The Committee noted its action sheet (Doc 01c) and the forward work plan (Doc 01d).
- 1.5 The Chair noted the unprecedented circumstances caused by the COVID-19 pandemic but expressed disappointment in the March 2020 portfolio performance, in particular the Fixed Income component of the long-term portfolio. However, he noted that it is still feasible to recover much of the ground during the balance of the year. The Chair highlighted the importance of asset allocation and manager selection to achieve this goal.

2. Investment Portfolio Review

- 2.1 Jeanne Shen, Chief Investment Officer, updated the Committee on the first quarter (1Q) 2020 performance of the investment portfolio, manager activities and related transactions (Doc 02).
- 2.2 Ms Shen noted the volatile financial markets during 1Q, the absence of diversification benefits when volatility spiked and referenced the health and economic crisis related to COVID-19. The outsized impact to the energy and commodity sectors was highlighted.
- 2.3 In relation to the long-term portfolio, Ms Shen noted the negative return in 1Q. She highlighted the greatest negative impact on an absolute basis was seen in Equities followed by Fixed Income. She explained that cash was the only asset class with a positive return in 1Q.

- 2.4 She provided an overview of the major exposures in the short-term and long-term portfolios, key characteristics of each portfolio exposure, asset allocation ranges and performance of the total portfolio, as well as individual managers.
- 2.5 Ms Shen presented the portfolio allocation and noted it is within the approved ranges for each exposure.
- 2.6 Ms Shen noted no new transactions were conducted during 1Q that were not previously discussed with the Committee.
- 2.7 Ms Shen noted that the Equity composite performance was acceptable considering the overall market performance, with EM small cap, emerging markets and non-US micro-cap being relative detractors. The Fixed Income composite performance relative to the benchmark was adversely affected by lower credit quality and securitised credit strategies. Normally the specialist credit strategies in which the fund invests hold their value relatively well in “normal” market selloffs. However, the severity and uncertainty of this crisis shook these strategies to their core with material price declines in some cases made worse by forced market deleveraging.
- 2.8 Ms Shen noted a Short Duration High-Yield manager is officially on watch and NEPC will speak with them about integrating sustainable investment processes.
- 2.9 Ms Shen highlighted that the long-term portfolio’s annualised return is still ahead of benchmark over the history measured.
- 2.10 Ms Shen then outlined to the Committee the 2020 due diligence schedule and noted that given current pandemic restrictions, due diligence visits are moving forward virtually.

Discussion

- In response to a question from a Committee member Ms Shen noted the Investments team in the process of implementing the Sustainable Investment Policy and assessing which managers are successfully integrating socially responsible investment strategies and sustainable business practices.
- It was noted that portfolio results discussed with the Committee reflect 1Q results only and do not include April performance which showed a meaningful recovery.
- The Committee discussed risks and the potential impact of managers encountering liquidity issues. Ms Shen noted the Investments team will work to stay ahead of any signs of material redemptions which might impact fund performance and/or business stability.
- NEPC referred to a risk review conducted in November 2019 and with the pandemic qualifying as a multi-standard deviation event, NEPC noted Gavi’s portfolio performance remains within pre-identified risk scenarios.

- NEPC provided inputs regarding asset class correlations during March and on a go forward basis, noting that the March price action was a price shock. NEPC expressed confidence with the correlation assumptions used for Gavi's latest asset allocation study on a go-forward basis.
- The Chair expressed caution about the pace and magnitude of the market recovery going forward, taking into account uncertainties related to the COVID-19 pandemic and the knock on effects of much of the global economy being put into an induced coma.
- In response to a question from a Committee member on whether a new manager would be hired only on the basis of virtual meetings, Ms Shen noted that most managers under consideration have met with either the Investments team, NEPC or a member of the Committee, and with alternative investments there is a detailed due diligence questionnaire available. Given travel limitations related to COVID-19, using virtual meetings in the hiring process of any new manager would be considered.
- The Chair noted that there is no interest for the time being to add further illiquid credit strategies. He did express the opinion that the existing credit allocations which hurt the portfolio in March should have meaningful recovery value, albeit the pace of the rebound will be slower than the decline. Provided material defaults were avoided these exposures would pull to par from current levels. He cited the case of Japan post their bubble bursting as negative for equities but positive for credit. Finally, a manager in the opportunistic distressed credit space could be considered depending on the severity of the likely economic downturn.
- With the addition of the short duration high yield manager referred to above, the Chair noted that two managers in the Fixed Income composite were now on watch.

3. Portfolio re-balancing review

- 3.1 Sebastian Grzejka, Senior Consultant, NEPC, presented to the Committee a review of Gavi's long-term investments portfolio (Doc 03).
- 3.2 NEPC recommends no changes to the overall asset allocations of the portfolio at this time noting the current strategy takes into consideration short-term periods of volatility.
- 3.3 Mr Grzejka noted that NEPC will provide a full asset allocation review in September or November 2020 and may make recommendations for adjustments at that time.
- 3.4 NEPC recommends rebalancing from cash across the asset class categories by September 2020 to take advantage of some current dislocations in markets. Mr Grzejka discussed opportunities in the current environment and highlighted US equity opportunities with quality active management.

- 3.5 Phillip Nelson, Director of Asset Allocation, NEPC, opined about the macro environment and its impact on current assumptions. He noted the outlook indicates caution in the near-term and expects interest rates will likely remain low in the long-term.
- 3.6 Mr Grzjka shared there is ~US\$ 115 million in cash meant for the long-term portfolio and NEPC proposed (having discussed and agreed with the Chair and the CIO in advance) ~US\$ 75 million to be deployed (subject to market timing as agreed between the Chair and Chief Investment Officer) and the balance prior to the 9 September 2020 meeting. Mr Grzjka further noted the Committee previously approved in February 2020 an additional investment into a manager in the Multi Exposure composite which is still underway.
- 3.7 The Committee **approved**, subject to market timing, the following recommendations:
- To deploy US\$ 75 million from cash by 9 September 2020 to maintain target allocations as detailed below:
 - To invest US\$ 25 million from cash in US equities with a focus on active managers with sustainability strategies.
 - To invest US\$ 40 million in fixed income with a focus on liquid credit opportunities with existing managers.
 - To invest US\$ 5 million in the tactical composite with an existing manager.
 - To invest US\$ 5 million in the multi-exposure composite with an existing manager.

Discussion

- A Committee member asked about a specialty manager in the fixed income composite to which it was noted risk tolerance levels must be kept in mind. NEPC noted that technical expertise is usually required to manage derivative investing on the credit side to yield desirable results.
- A Committee member asked about Gavi's liquidity profile to which the Secretariat noted Gavi's liquidity approach is to tap into the long-portfolio last, and there are currently no liquidity concerns.
- A Committee member asked NEPC about their views on the labour force, and NEPC noted a long-term disruption in the labour market is expected given the high level of uncertainty in global economies.
- In response to a question from a Committee member, NEPC noted investment opportunities in emerging industries such as telehealth are worth considering as part of a balanced investment strategy.

4. Any other business

- 4.1 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
- Afsaneh Beschloss
- Margaret Hamburg
- William Roedy
- David Sidwell

Regrets

- Matthias Reinicke
- Yibing Wu

Observers

- George Wellde Jr.

Secretariat

- Seth Berkley (items 1-2)
- Lauren Cui
- Assietou Diouf
- Jeanne Shen
- Liron Sharon
- Sandra Gonzalez Nederstigt
- Melissa Wolfe

Guests

- Lily Fayerweather NEPC)
- Sebastian Grzejka (NEPC)
- Phillip Nelson (NEPC)
- Dulari Pancholi (NEPC)