

Gavi Alliance Investment Committee Meeting

12 November 2020

Teleconference

1. Chair's report

- 1.1 Finding a quorum of members present, the meeting commenced at 14.00 Geneva time on 12 November 2020. Stephen Zinser, Investment Committee Chair, chaired the meeting.
- 1.2 Standing declarations of interest were tabled to the Committee (Doc 01a).
- 1.3 The minutes of the 9 September 2020 meeting were tabled to the Committee as they had been approved by no objection consent on 3 November 2020 (Doc 01b in the Committee pack).
- 1.4 The Committee noted its action sheet (Doc 01c) and the forward work plan (Doc 01d).
- 1.5 The Chair previewed the key discussion points and decisions for this meeting including the recovery in investment performance from Q1, and the market's interpretation of the U.S. elections and recent efficacy information released by vaccine candidates.

2. Asset allocation and risk review

- 2.1 Sebastian Grzejka, Senior Consultant, NEPC, and Ms Jeanne Shen, Chief Investment Officer, presented to the Committee the independent annual assessment of Gavi's long-term investment portfolio (Doc 02), noting that the discussion with the Committee would be used to inform the strategic and tactical priorities for 2021.
- 2.2 Mr Grzejka noted that the purpose of the annual review is to adjust the asset allocation of the portfolio, tie it into the likely market landscape, identify approaches or opportunities for the upcoming year, and review the portfolio from a risk perspective.
- 2.3 Ms Shen noted that NEPC recommends minor adjustments to the asset allocation, that account for the likely market environment and Gavi's desired risk profile. Mr Grzejka presented two options for new asset allocation mixes, noting that both are "all weather conservative approaches" that target moderate volatility, and

recommended Mix A as the preferred option (a recommendation which the Chairman and CIO had agreed with NEPC be put forward to the Committee).

- 2.4 It was reported that as of 30 September 2020, the portfolio was near target allocation for all categories, and that the current allocation is in line with acceptable risk parameters. Mix A broadly maintains this conservative posture while modestly increasing the Equity allocation. The Committee was supportive of Mix A.
- 2.5 Mr Grzejka noted that in the fixed income allocation, the prevailing and expected interest rate environment warranted a decrease in short duration fixed income and an increase in TIPs and private debt. He also recommended modest increases to U.S. and emerging markets equities through existing strategies.
- 2.6 In the multi exposure composite Mr Grzejka noted it is complimentary to the other allocations and strategies, and reminded the Committee that one strategy in the composite was terminated in September 2020. He further noted that it is challenging in the current environment to find strong opportunities and consistent risk diversifying managers and highlighted that NEPC recommends keeping the exposure at its current lower level.

Discussion

- The Committee discussed the U.S. and emerging markets equity allocations, as well as the risks and opportunities in the current environment. The Chair noted that although U.S. equity appears to be expensive it is unlikely to be dethroned from its best performing perch in the near term.
- The Secretariat noted the exceptionally strong performance of the long-short Technology Media and Telecom (“TMT”) equity strategy, and suggested Gavi might want to trim that exposure.
- The Committee also discussed the possibility of investing in gold as a defensive play and incremental inflation hedge and asked the Secretariat to explore investment options. Ms Shen noted that the portfolio has some gold exposure through a current commodity relative value fund.
- The Chair inquired about the Value at Risk analysis and Mr Grzejka highlighted the findings of the NEPC analysis in Mix A and Mix B (which was not in the earlier version of the presentation).
- The Committee discussed the exposure of the portfolio to China, the opportunities and risks associated with investments in China, and asked the Secretariat to quantify the portfolio exposure to China as a first step towards reviewing next steps.

3. Investment portfolio review

- 3.1 Ms Jeanne Shen, Chief Investment Officer, updated the Committee on the performance of the investment portfolio, manager activities, and related transactions (Doc 03).
- 3.2 Ms Shen noted that near zero rates have a significant impact on the portfolio, and that the market recovery since the lows of March 2020 has not been uniform.
- 3.3 Ms Shen noted that despite some recent new investments there is still cash in the Long-Term Portfolio to be deployed.
- 3.4 Ms Shen then reviewed the performance of the exposures during 2020. She noted that Q1 was a negative quarter, especially for credit focused fixed income managers. Some have bounced back well but the overall recovery has not been sufficient to cover the gap with the composite benchmark. Equity performance has meaningfully exceeded its benchmark, in large part due to the TMT strategy. The multi exposure strategies performance has been mixed, one underperforming risk parity focused manager has been terminated and the trend following manager has struggled in this year's market environment.
- 3.5 Ms Shen discussed the Sharpe ratio of the composite exposures and noted the positive story set out in the slide.
- 3.6 Ms Shen discussed the growing global interest in sustainable investing, as well as managers who have breached Gavi's five percent fossil fuel exposure threshold. Ms Shen noted the challenges in finding replacement strategies and shared with the committee alternatives that are being explored.
- 3.7 Ms Shen outlined to the Committee the completed 2020 due diligence schedule and noted that most visits in 2020 were virtual due to COVID-19.

Discussion

- The Committee commented on diverging performance of certain managers in most asset categories including multi-exposure.
- The Committee discussed the pros and cons of the sustainable funds Ms Shen presented. In connection with one sustainable fund that could replace an existing strategy of the same manager, the Committee disapproved some of the screens applied by the sustainable fund. The Committee suggested to find other alternatives if the manager keeps breaching the Gavi screens thresholds.

4. Annual risk rating

- 4.1 Mr Shen explained that the Investments team annually undertakes a process of assigning risk ratings to all investment managers based on a range of monitoring and due diligence activities performed throughout the year.
- 4.2 Ms Shen explained that 13 characteristics used for the previous year's risk rating exercise were retained from the previous year and a 14th criterion, Racial Inclusion, was added following a recommendation from the Committee in the September 2020 meeting.
- 4.3 Ms Shen outlined the 2021 due diligence visits that will be conducted and noted that the seven managers who were rated as 'moderate risk' will be visited next year.

5. Annual service providers performance review

- 5.1 Ms Shen explained that the Committee is required annually to review the performance of Gavi's service providers. She explained that the Investments team adopted a simple rating system of *Excellent*, *Solid* and *Poor* for seven factors that broadly apply to all vendors
- 5.2 Ms Shen presented the results of the annual service providers review process and indicated that, overall, the satisfaction with the vendors is high and noted that the Investments team is proposing to retain the current custodian, investment consultant and the SRI consultant. However, Ms Shen noted that a Request for Proposal for investment consultant will be required in 2021.

Discussion

- The Committee inquired regarding the investment consultant's senior leadership involvement and level of service.
- The Committee asked for more exposure to the senior leadership of NEPC.

6. Any other business

- 6.1 After determining there was no further business, the meeting was brought to a close and then proceeded into an Executive Session with only Committee members present.

Ms Brenda Killen
Secretary



Attachment A

Participants

Committee Members

- Stephen Zinser, Chair
- Afsaneh Beschloss
- William Roedy
- David Sidwell
- Peggy Hamburg
- Yibing Wu

Observers

- Sarah Goulding

Secretariat

- Assietou Sylla Diouf
- Brenda Killen
- Ian MacTavish
- Jeanne Shen
- Liron Sharon
- Sandra Gonzalez Nederstigt
- Kimberly Villa
- Melissa Wolfe

Guests

- Sebastian Grzejka (NEPC) (items 1-4)
- Lily Fayerweather (NEPC) (items 1-4)