

INVESTMENT COMMITTEE CHAIR REPORT

BOARD MEETING

Stephen Zinser

2-3 December 2015, Geneva



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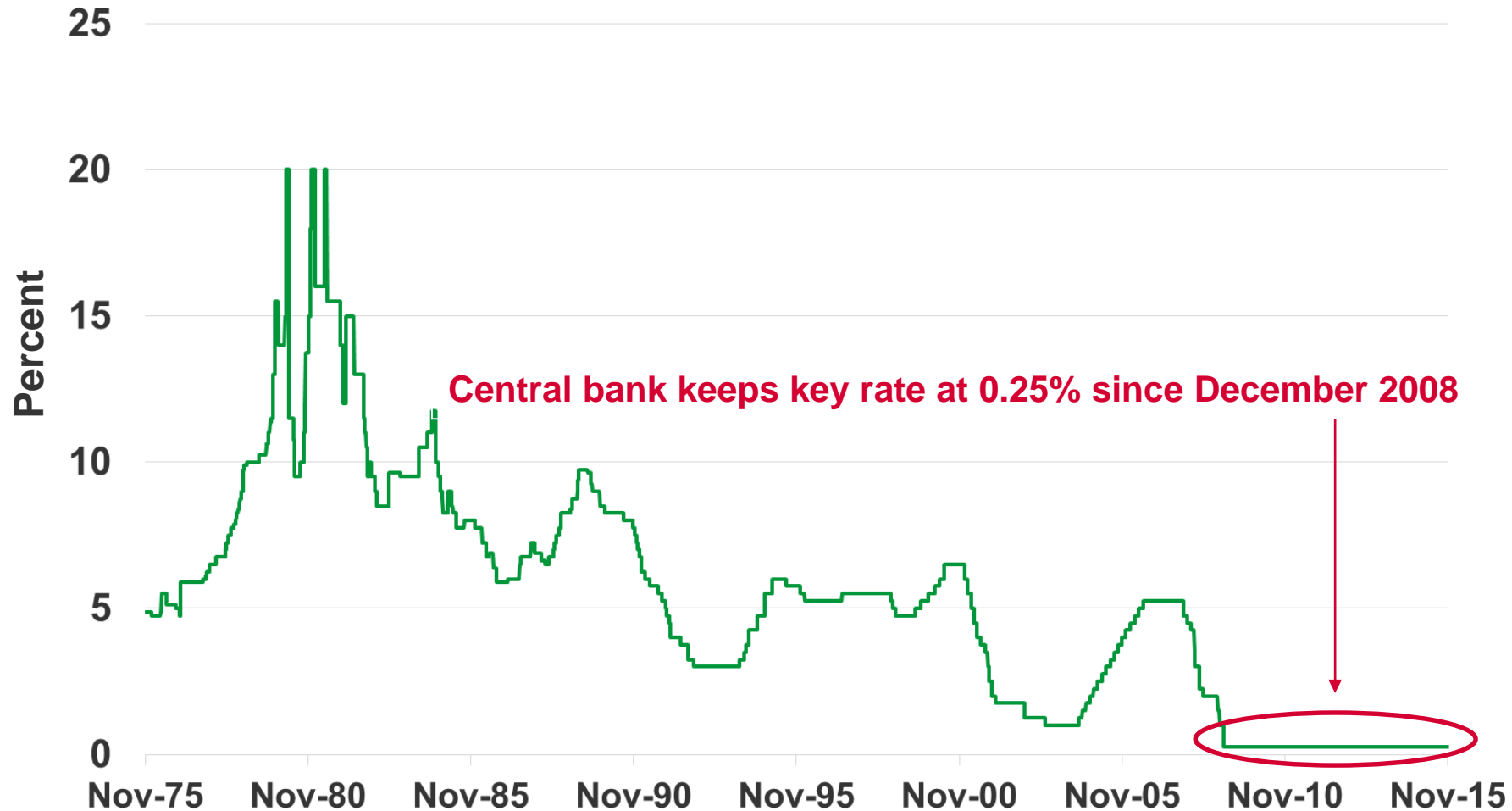
Objectives and goals

- **Macro Environment and Market Commentary**
- **Portfolio and Performance Review**
- **Key 2016 Priorities**

Macro environment: heightened uncertainty

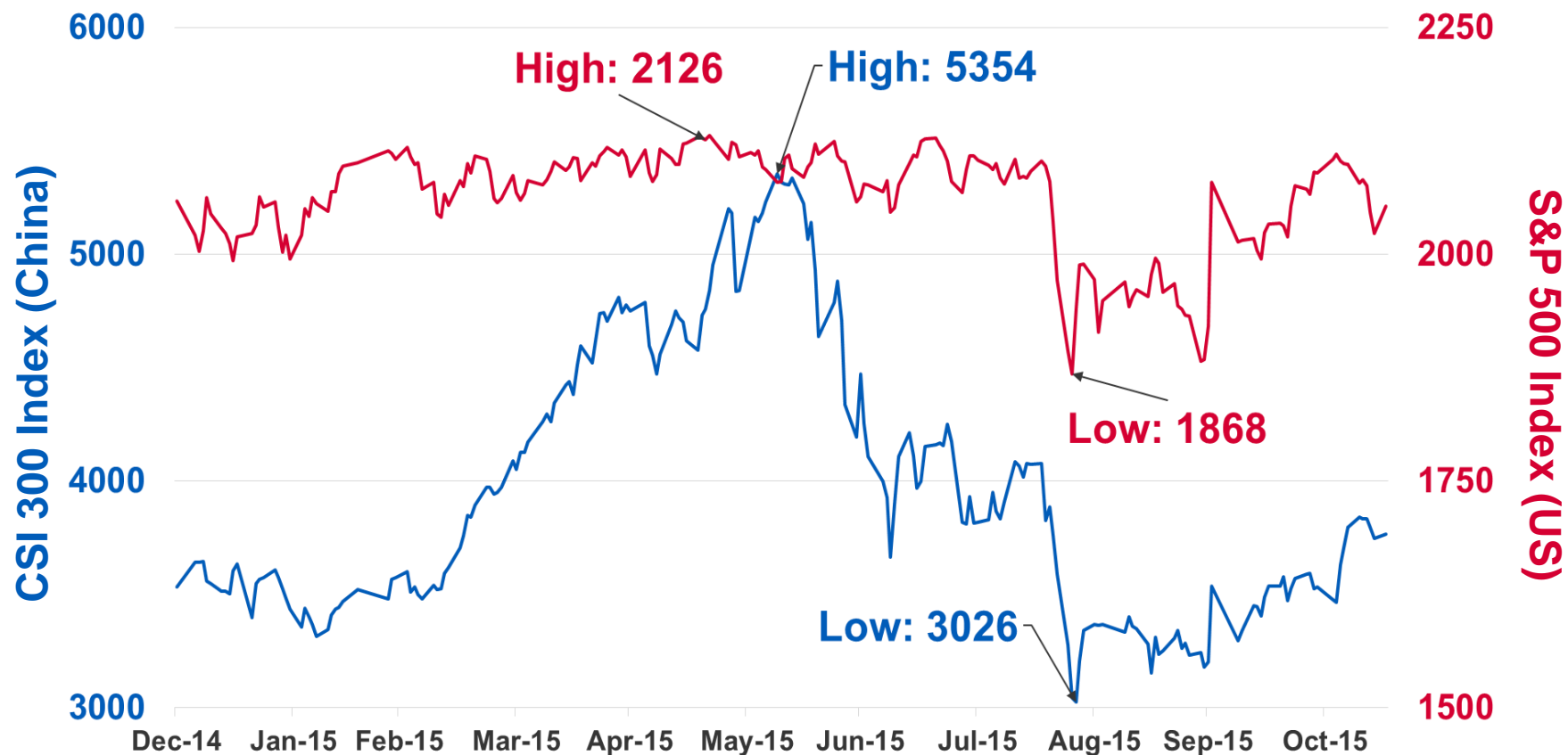
- **US: Prolonged expectations for a central bank rate hike, pace of rate rises beyond December 2015 unclear**
- **China: Less upbeat economic growth statistics, equity volatility and surprise currency devaluation**
- **Oil: Organized supply from oil producers no longer intact**

40-year history: US Fed funds rate



Data as of 16 November 2015
Source: Bloomberg – FDTR Index

Equity market volatility: 2 largest economies



Peak to Trough: CSI 300 Index: 65.9%
S&P 500 Index: 12.8%

Data as of 16 November 2015
Source: Bloomberg – SHSZ300 Index and SPX Index

Market commentary

- **Equity valuations are less attractive, particularly in North America.**
- **We are late in the market cycle for fixed income; yields are more likely to go up than down.**
- **Low yields suggest very modest fixed income returns going forward; with lower yields there is also a higher price sensitivity to changes in yields (e.g. a modest change in yields can lead to large loss in price).**
- **Corporate credit markets are showing signs of deteriorating fundamentals; current conditions require more investor diligence.**

Portfolio objectives

Short-term	Long-term
<ul style="list-style-type: none">• Maintain liquidity to meet anticipated operating requirements.• Provide for prudent diversification of investments to minimize credit and market risk exposure.• Generate income.	<ul style="list-style-type: none">• Generate a positive real (after inflation) return.• Generate income for current spending.• Provide a prudent degree of growth in assets to support future spending.• Provide for prudent diversification of investments to minimize correlation among investment strategies.• Maintain liquidity to meet unanticipated operating requirements.• Maintain overall portfolio volatility within acceptable risk levels.

Key 2016 priorities

Will likely
lead to
policy
and
process
updates

- **Internal Audit:**
An internal audit of the investment management processes is currently being finalised. A summary of any significant findings will be provided to the Investment Committee in February 2016.
- **Socially Responsible Investment (SRI) Policy:**
Continue semi-annual screening and initiated practice of enhanced engagement with managers breaching 2% limit.¹

¹ Screens include tobacco, weapons, cluster munitions, international human rights and child labour.

Strategic asset allocation review – Direction of travel

Will lead
to policy
updates

Following an extensive RFP process and the hiring of a new strategic consultant, the Investment Committee discussed asset allocation at the November meeting.

- **Reviewed three scenarios for improving risk-reward ratio and asked for further refinement of the most conservative option.**
- **Agreed with recommendation to add more absolute return and market neutral strategies (e.g., less market directional style of investing).**
- **Agreed with recommendation to add a multi-exposure category for strategies that invest across exposures; Gavi already has such investments.**
- **Equity and Tactical exposure ranges likely to be lower.**

THANK YOU



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