

INVESTMENT COMMITTEE CHAIR REPORT

BOARD MEETING
Stephen Zinser
22-23 June 2016 Geneva



OBJECTIVES AND GOALS

- **Macro Environment and Market Commentary**
- **Portfolio and Performance Review**
- **Key Highlights 1H2016**
- **Key 2H2016 Priorities**

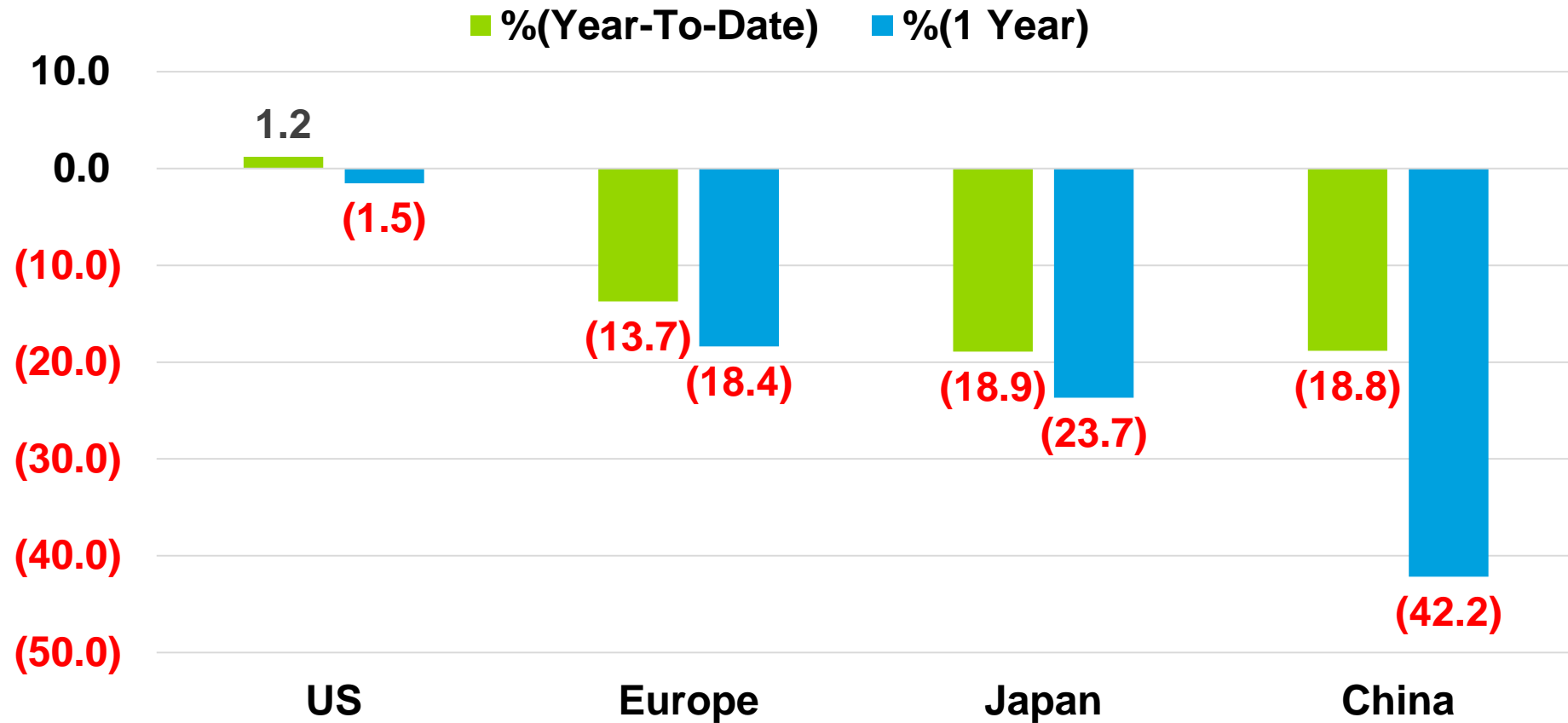
MACRO ENVIRONMENT: UNPRECEDENTED

- **Central Bank policies: diminishing returns from key market-friendly initiatives (quantitative easing).**
- **Fiscal spending and structural reforms: government spending, tax and regulatory reforms may be the next levers to jump start economic growth.**
- **Inflation: modest now, but poses a threat if policymakers fumble.**
- **Brexit: the immediate market hurdle.**

MARKET COMMENTARY

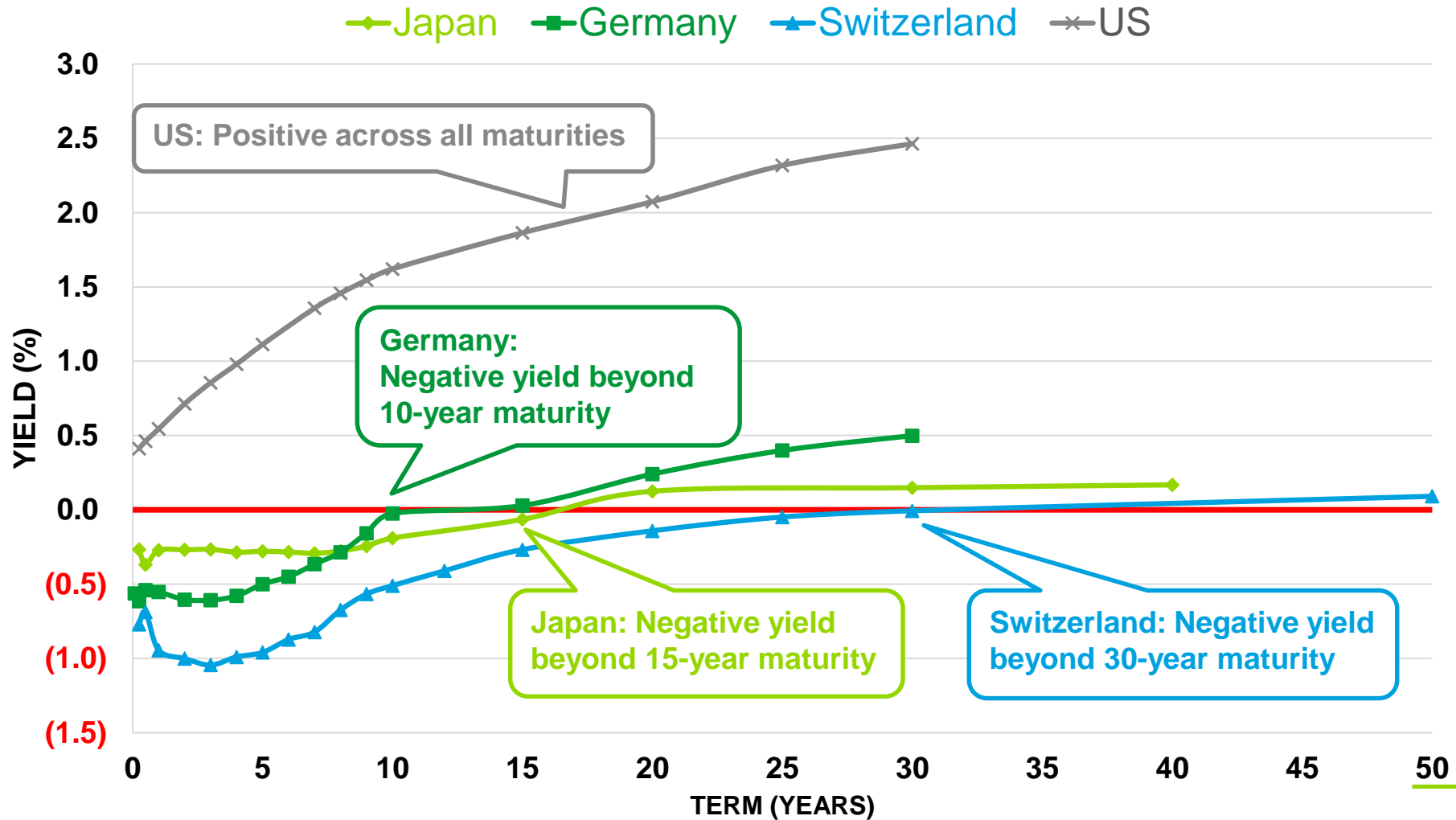
- **Equity market performance is mixed, reflecting lackluster economic prospects.**
- **Sovereign bonds are seen as risk havens and yields have been pushed to record low levels. The eventual unwinding of this bubble may be volatile.**
- **US fixed income markets which have positive, nominal yields are seen as attractive on a relative basis.**

MUTED EQUITY RETURNS



Data as of 16 June 2016
Source: Bloomberg, local currency terms

SOVEREIGN YIELD CURVES



Data as of 16 June 2016
Source: Bloomberg

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PORTFOLIO OBJECTIVES

Focus of discussion

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 HIGHLIGHTS 1H2016

Internal Audit:

The first internal audit of the investment management processes was in final draft.

Update:

Internal audit report shared with the Investment Committee in February. Out of 5 issues, one is closed out and the remainder are in active stages of remediation. There were no high risk issues.

Socially Responsible Investment (SRI) Policy:

Continue semi-annual screening and initiated practice of enhanced engagement with managers breaching the 2% limit.¹

Update:

The Investments team screened 31 December 2015 holdings and engaged with 3 managers that breached the 2% limit. Health-related breaches were among the concerns. An internal evaluation recommended the termination of 2 managers, which the Committee accepted.

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

KEY HIGHLIGHTS 1H2016 (cont.)

Asset allocation review:

The Investments team successfully integrated a new strategic consultant, hired in 4Q2015, to provide independent performance reporting, deepen due diligence resources and support asset allocation reviews.

Update:

Revised the Investment Policy and Asset Allocation Statement to include a multi-exposure category and re-articulated the ranges for exposures while maintaining a conservative risk-reward objective.

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

KEY 2H2016 PRIORITIES

- **Mitigate volatility:** Continue to add more absolute return and market neutral strategies, and reduce exposure to market directional strategies.
- **Strengthen monitoring practices:** Add more risk metrics to enhance existing performance reporting and focus on rationalizing the total number of managers in portfolios.
- **Expand SRI network:** Reach out to leading practitioners and institutional investors. Find new channels for information sharing.

THANK YOU



Reach every child

www.gavi.org