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Subject                      **Investment Committee Chair Report**

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Category                    **For Information**

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## **Section A : Introduction**

- This report provides an overview of the activities of the Investment Committee (“Committee”) since the Chair last reported to the Board in June 2023.
- All values are reported as of 30 September 2023. The long-term portfolio value is US\$ 1.2 billion. Another US\$ 25 million advance contributions are en route for investment and US\$ 2 million resides with Gavi’s Swiss custodian available for immediate investment.
- The financial markets faced a battery of geopolitical and macroeconomic risks leading to periods of volatility but not at the levels experienced in 2022. The US Federal Reserve’s higher-for-longer interest rate policy triggered market volatility while other events such as Fitch’s downgrade of US debt in August and Moody’s subsequent ratings outlook notice in November passed with limited reaction. Fitch’s call to attention of the US government’s fiscal and debt management may not be heeded now but it will have real impact on government spending in the future. Higher interest rates mean higher debt service (mandatory government spending), and a potential for crowding out discretionary spending allocations.
- The COVID-19 pandemic and Russia-Ukraine war revealed less than resilient global supply chains, leading to a demand-supply imbalance with inflation as its manifestation. Large government stimulus programmes exacerbated the demand side of the imbalance. Major central banks unleashed a rapid increase in interest rates to dampen demand and reduce inflation, and they have been successful in their trajectories but still short of their preferred targets for inflation. In the US, the annual inflation peaked at 9.1% in June 2022 and subsequently dropped to 3.2% in October 2023, but it is still short of the preferred 2% inflation target.
- On the fixed income front, major markets’ interest rates continued to rise in 2023 as a result of central bank actions and market expectation though at a much less rapid pace than what occurred in 2022. Global bonds had significant negative returns in 2022 as a consequence for the rapid pace of interest rate hikes (e.g., bond prices and interest rates move in opposite directions) but also from a starting point of very low yields. In 2023, the higher current yields helped temper the decline in bond prices. The broad fixed income market, as represented by Bloomberg Multiverse index, had a negative year-to-date return of -1.9% at the end of September and clawed back into positive territory with strong performance during the months of October and November. Interest rates

across major markets show signs of levelling but central bankers cannot yet declare victory.

- Improving inflation data and exuberance over artificial intelligence progress powered equity markets in 2023. The broad-based S&P 500 delivered a respectable return of +13.0% as of the end of September. The tech-heavy NASDAQ index delivered a strong return of 27.0% for the same period but it has not recovered from its 2022 calendar year performance of -33.0%. A basket of mega-cap US tech stocks collectively called the Magnificent Seven returned an astounding +84.0%.
- The long-term portfolio had a year-to-date return of +6.5% versus the policy benchmark return of +3.7%. It also outperformed its benchmark in its trailing 1-year, 3-year, and 5-year annualised periods. Year-to-date Fixed Income assets significantly outperformed its composite benchmark and was the driving force behind the long-term portfolio outperformance. Equity and Diversifiers assets underperformed their respective benchmarks year-to-date.
- The Fixed Income composite outperformed with a return of +5.0% versus its benchmark return of -1.9%. High Quality Fixed Income outperformed due to its lower-than-benchmark duration. Yield Seeking Fixed Income outperformed with positive contribution from private credit funds, structured credit strategies, and tactical bond funds.
- The Equity composite underperformed with a return of +8.9% versus its benchmark return of +9.4%. An ESG-focused global equity fund, a market-neutral strategy, and a quantitative non-US microcap fund were the main contributors to the equity underperformance. A quantitative emerging market fund and a US index fund were significant outperformers relative to the composite equity benchmark.
- The Diversifiers composite underperformed with a return of +6.7% versus its benchmark return of +8.6%. A systematic trend-following strategy and a volatility dispersion strategy contributed significantly to the underperformance. The bright spot is a YTD +17.2% return from a commodity relative value fund.
- In June 2022, Gavi updated its Investment Policy and Asset Allocation Statement. The main purpose of the update was to reflect the introduction of a 12% allocation to private assets (i.e., 8% allocation to private equity and 4% allocation to real estate). The expected improvement in performance is in the trade-off of liquidity in exchange for higher returns. When the 12% private assets allocation is reached, there will still be liquidity – primarily from High Quality Fixed Income (15% target) and Equity (35% target).
- Based on market conditions stemming from the dislocation of financial markets in 2022 and the quality of the private equity managers fundraising in 2023, the Investment Committee agreed that private equity is more attractive than real estate. As a result, the Investments team focused their efforts on private equity.

The team collaborated closely with its consultant and the Committee to build a roadmap for private equity investing that includes three components: (1) the development of a private equity philosophy; (2) the adoption of a core/satellite approach in relationship to private equity risk; and (3) a regular review of the annual pacing analysis. This roadmap provides discipline around private equity investing where fundraising schedules can have aggressive deadlines and helps to refine manager searches so that the team and Committee can work together efficiently.

- The Committee approved Gavi's three private equity investments for a total commitment of US\$ 40 million in 2023: secondaries, secondaries venture and buyout funds. In addition, the Committee provisionally approved an additional private equity growth manager that will likely fundraise in 2H 2024.
- The Committee commenced a review of real estate opportunities in Q3 2023. Gavi's consultant provided an overview of the real estate market. As a result of rising interest rates, limited access to debt and demographic shifts weighing on key sectors, the Committee elected to wait until 2024 before making any commitments.
- The Committee will review recommendations for any changes to the Sustainable Investment Policy in 2024. During 2023, the Investments team embarked on a landscape analysis of how other institutional investors, including Gavi's partners, implement their sustainable investment practices. This analysis focuses on the level of investment manager engagement, the types of vendors used, the outcomes, and the human capital resources required to achieve desired outcomes.
- On a semi-annual basis, the Investments team conducts a sustainable investment screening of investment strategies that hold public corporate securities, and this stream of work requires access to an external service provider. Per the Gavi procurement rules, a competitive search for a provider is required in 2024. The Investments team will initiate the search with an appropriate set of vendor requirements after the Committee has agreed on the tenets of the revised Sustainable Investment Policy.
- The Investment Committee Chair report is attached in the form of a presentation as Annex A.

## **Annexes**

### **Annex A: Investment Committee Chair report**

# INVESTMENT COMMITTEE CHAIR REPORT

BOARD MEETING

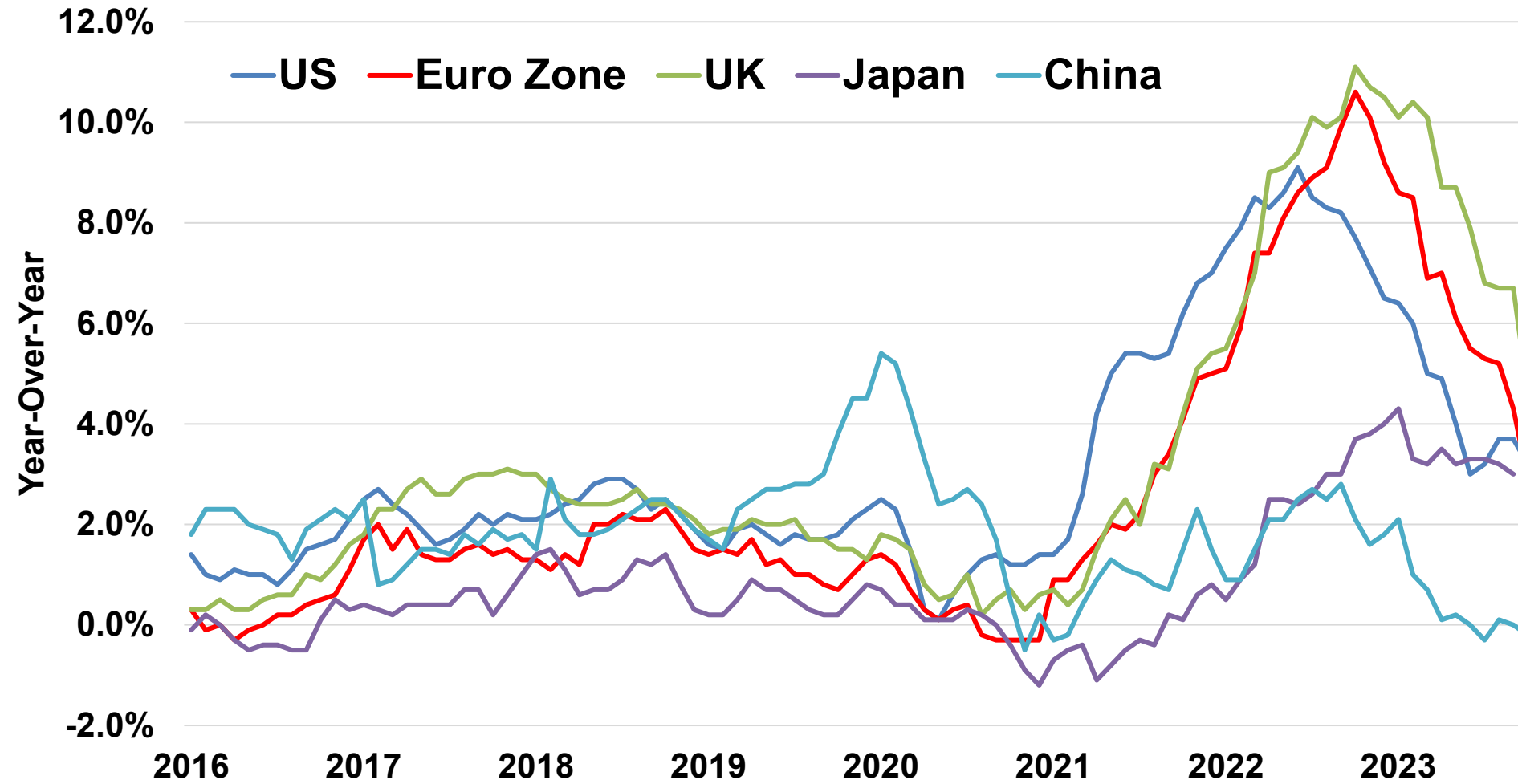
**Yibing Wu**

6-7 December 2023, Ghana

[gavi.org](https://gavi.org)

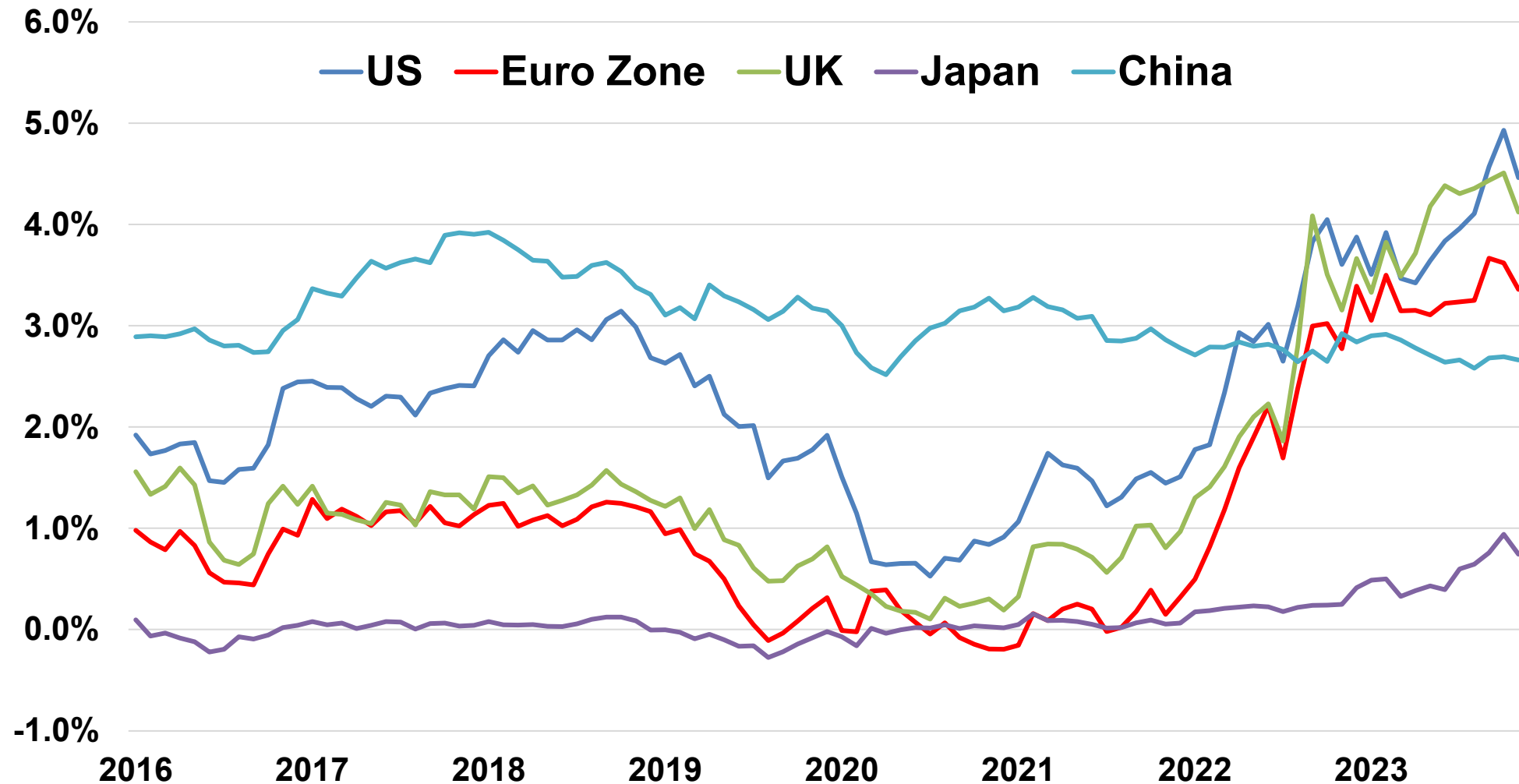


# Global Inflation Has Peaked



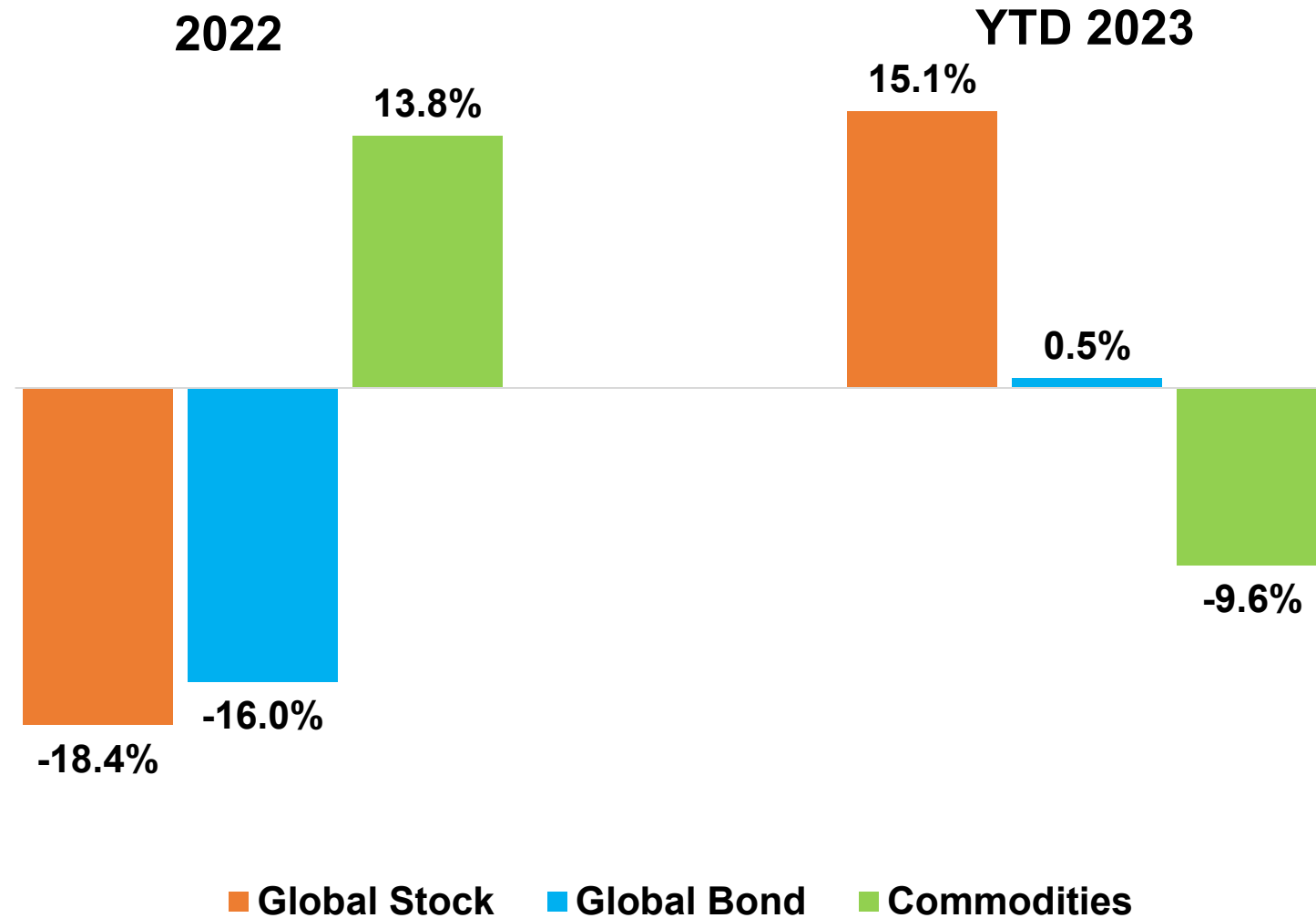
Bloomberg data through October 2023

# Major Markets: 10-year Interest Rates Leveling



Bloomberg Data as of 20 November 2023

# Global Financial Market Performance



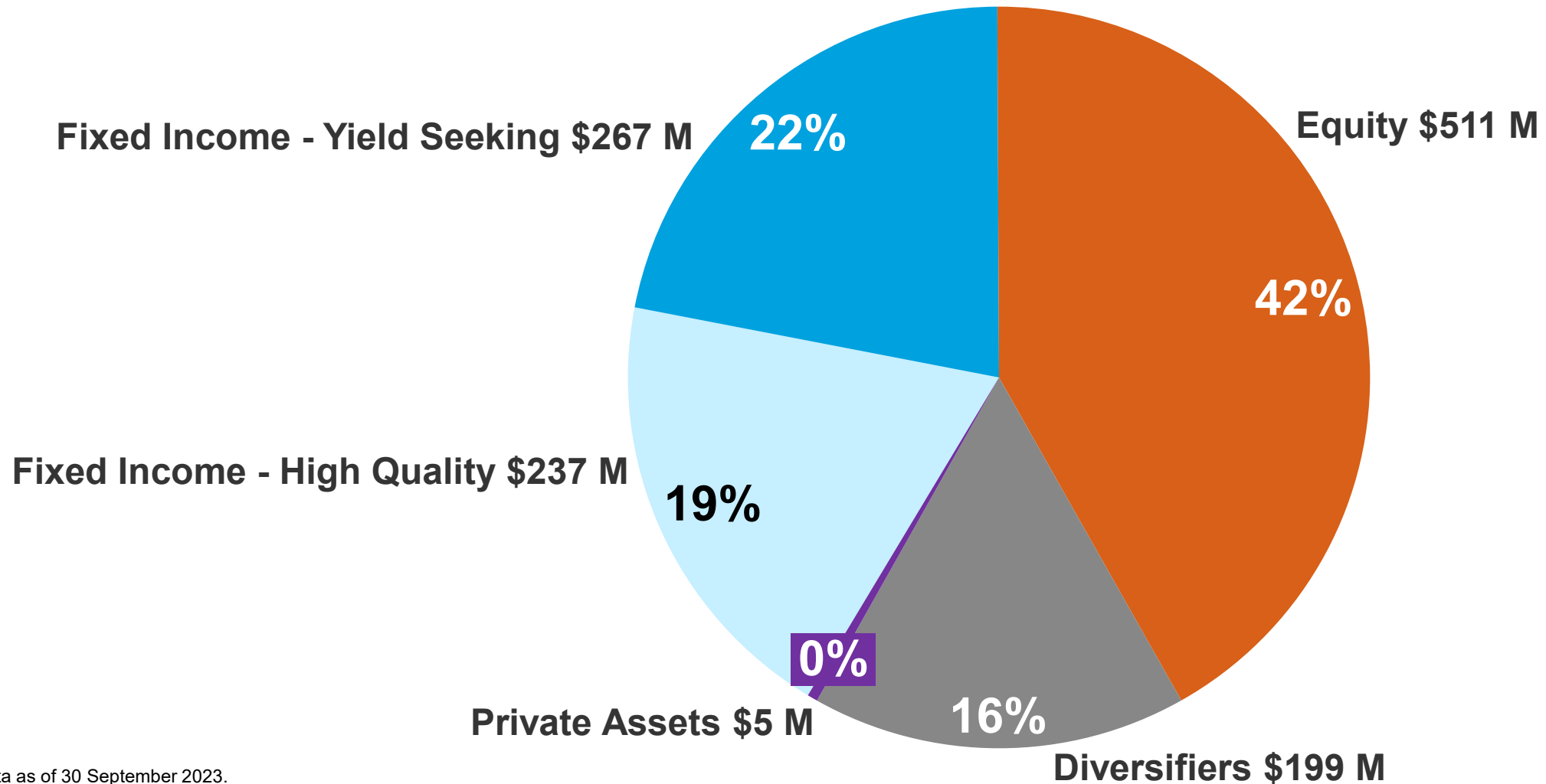
Data as of 17 November 2023

**Stock:** Global Equity Benchmark MSCI ACWI IMI Net USD Index

**Bond:** Global Bond Benchmark Bloomberg Multiverse Index

**Commodities:** Commodity Benchmark Bloomberg Commodity Index

# Gavi Portfolio Allocation (US\$ 1.2 B)<sup>1,2</sup>



Data as of 30 September 2023.

(1) Excludes LODH cash US\$ 2 million and Advanced contributions \$25 million.

(2) Excludes UNICEF Procurement account, IFFIm assets, COVAX assets and operating cash.



# Long-Term Portfolio Performance

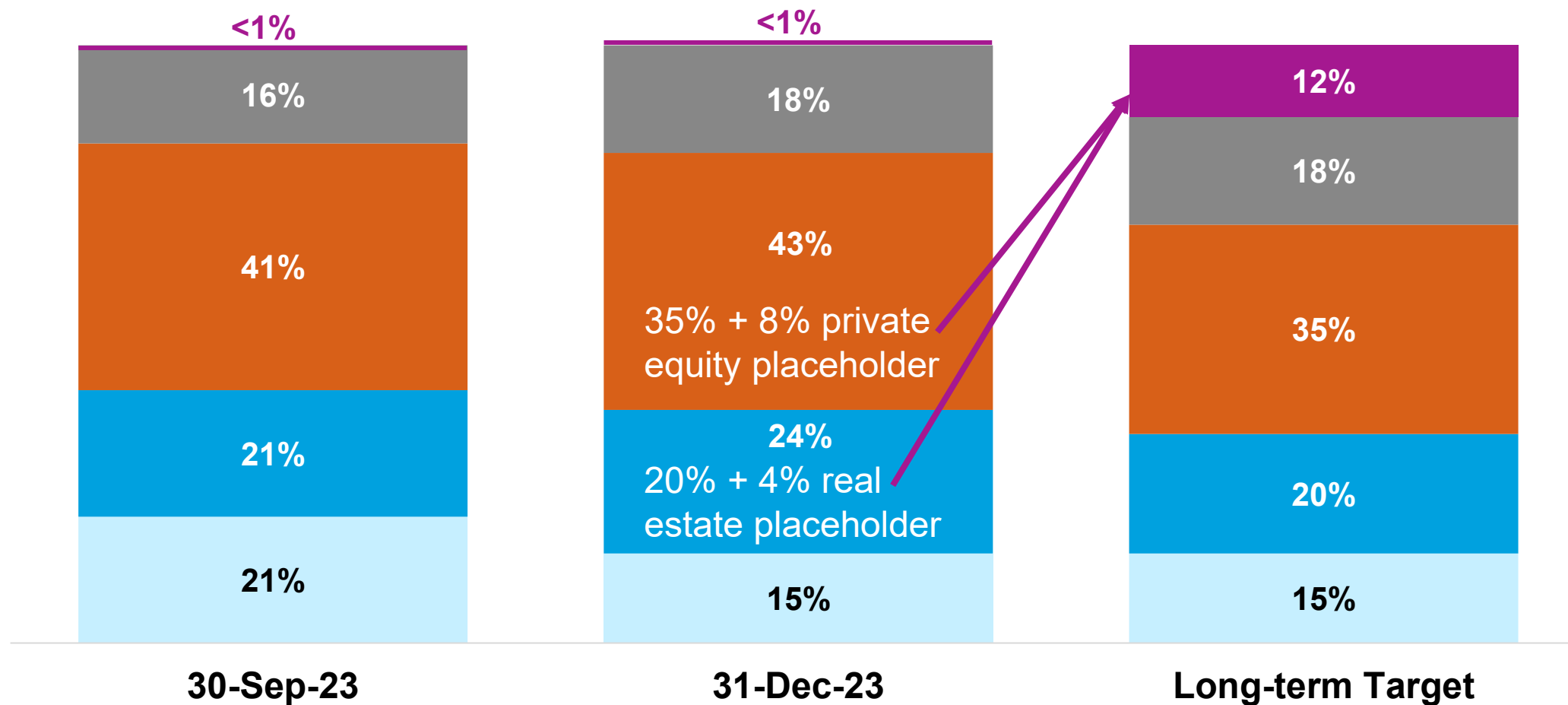
Annex A

Exposure vs. Benchmark	YTD	1 Yr	3 Yrs	5 Yrs
<b>Fixed Income</b>	<b>5.0%</b>	<b>8.3%</b>	<b>1.7%</b>	<b>3.0%</b>
High Quality	1.7%	3.4%	(1.7%)	1.4%
Yield Seeking	8.8%	13.8%	5.7%	5.8%
<i>Barclays Multiverse</i>	<i>(1.9%)</i>	<i>2.7%</i>	<i>(6.6%)</i>	<i>(1.5%)</i>
<b>Equity</b>	<b>8.9%</b>	<b>16.2%</b>	<b>5.4%</b>	<b>6.5%</b>
<i>MSCI ACWI IMI</i>	<i>9.4%</i>	<i>20.2%</i>	<i>6.9%</i>	<i>6.1%</i>
<b>Diversifiers</b>	<b>6.7%</b>	<b>7.4%</b>	<b>7.0%</b>	<b>6.9%</b>
<i>Credit Suisse Multi-Strategy</i>	<i>8.6%</i>	<i>10.9%</i>	<i>7.3%</i>	<i>5.1%</i>
<b>Private Assets</b>	<b>19.0%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
<b>Long-term Portfolio</b>	<b>6.5%</b>	<b>9.9%</b>	<b>4.2%</b>	<b>4.9%</b>
<i>Policy Index</i>	<i>3.7%</i>	<i>9.3%</i>	<i>0.2%</i>	<i>2.6%</i>
<b>Difference</b>	<b>2.8%</b>	<b>0.6%</b>	<b>4.0%</b>	<b>2.3%</b>

Data as of 30 September 2023.

# Portfolio Transition To Long-Term Target

Annex A



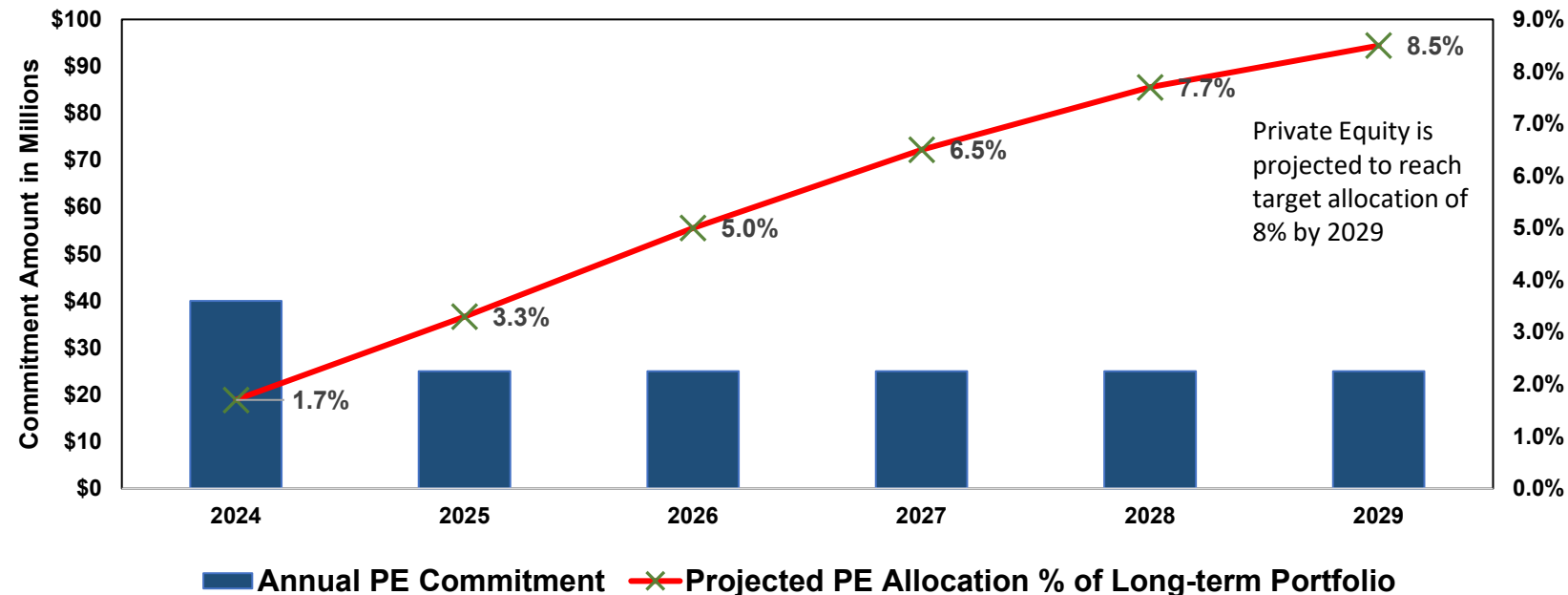
■ Fixed income - High Quality ■ Fixed Income - Yield Seeking ■ Public Equity ■ Diversifiers ■ Private Assets \*\*

\* Includes Advanced contributions.

\*\* Private assets includes private equity and real estate

# Private Assets Implementation

- ❑ **Private equity** (8% target allocation): Prioritised effort, agreed on core-satellite investment philosophy, and reviewed the fund-raising schedule of top tier managers. Gavi made total commitments of US\$ 40 million in 2023. Exhibit below provides an illustration of the pacing.
- ❑ **Real estate** (4% target allocation): Waited for more data to better assess the impact of higher interest rates and demographics that are shifting global opportunities. The Committee agreed on a core-satellite investment philosophy and expects an improved opportunity set in 2024 for making commitments to this sector.



For illustrative purposes only

# Sustainable Investment Journey

## 2008 - 2019

Established Socially Responsible Investment (SRI) Policy which later evolved into the Sustainable Investment Policy.

Reviewed negative screening semi-annually on company exposures in:

- 1) Tobacco
- 2) Weapons/Landmines
- 3) Child Labour
- 4) Human Rights
- 5) Oil & Gas Production
- 6) Thermal Coal Extraction

Joined CERES and became public supporter of Climate Action 100+.

## 2020-2022

Invested in an ESG driven equity strategy that works with C-suite executives to craft a plan for companies to be better stewards.

Invested in a fixed income impact fund focused on low-income neighborhoods and green initiatives.

Co-created and seeded 2 funds that substantially mirror Gavi's negative screens in their investment processes.

Invested in a thematic equity strategy that invests in companies with small environmental footprints and provides environmental solutions.

## 2023-2024

Conduct extensive research and peer outreach on sustainable investment practices to understand implementation options and resources required

Explore potential new tools, data sets, and vendors.

Identify integrated approach that reflects Gavi's core values and ties to organisation-wide sustainability efforts.

Re-scope Sustainable Investment Policy to include a systematic, data-driven framework approach.

**CERES:** is a collaborative network of investors, companies and nonprofits focused on sustainability. **Climate Action 100+:** working to ensure top 100 emitters of GHG take actions on climate change.

# 2024 Priorities

## ❑ **Deliver Continued Outperformance:**

The long-term investment portfolio historically outperformed its policy benchmark as a result of superior manager selection and strong risk management.

## ❑ **Implement Private Assets Allocation:**

This sector has the potential to provide higher returns in sectors the long-term portfolio has not previously accessed. Relationship building with and due diligence of top tier managers will continue. The Committee is also mindful of increasing operational burden it imposes on a small team.

## ❑ **Strengthen Collaboration with Audit & Finance Committee:**

The Treasury team began reporting on investment management strategy of short-term assets to the Investment Committee in 2023. The Committees seek future synergies with the long-term portfolio.

## ❑ **Finalise Sustainable Investment Policy:**

Elevate current practices with a systematic framework, as well as increased metrics to improve the quality and depth of investment manager engagement and achieve an overall goal of managing risk.

# Appendix

# Long-Term Portfolio Monthly Returns

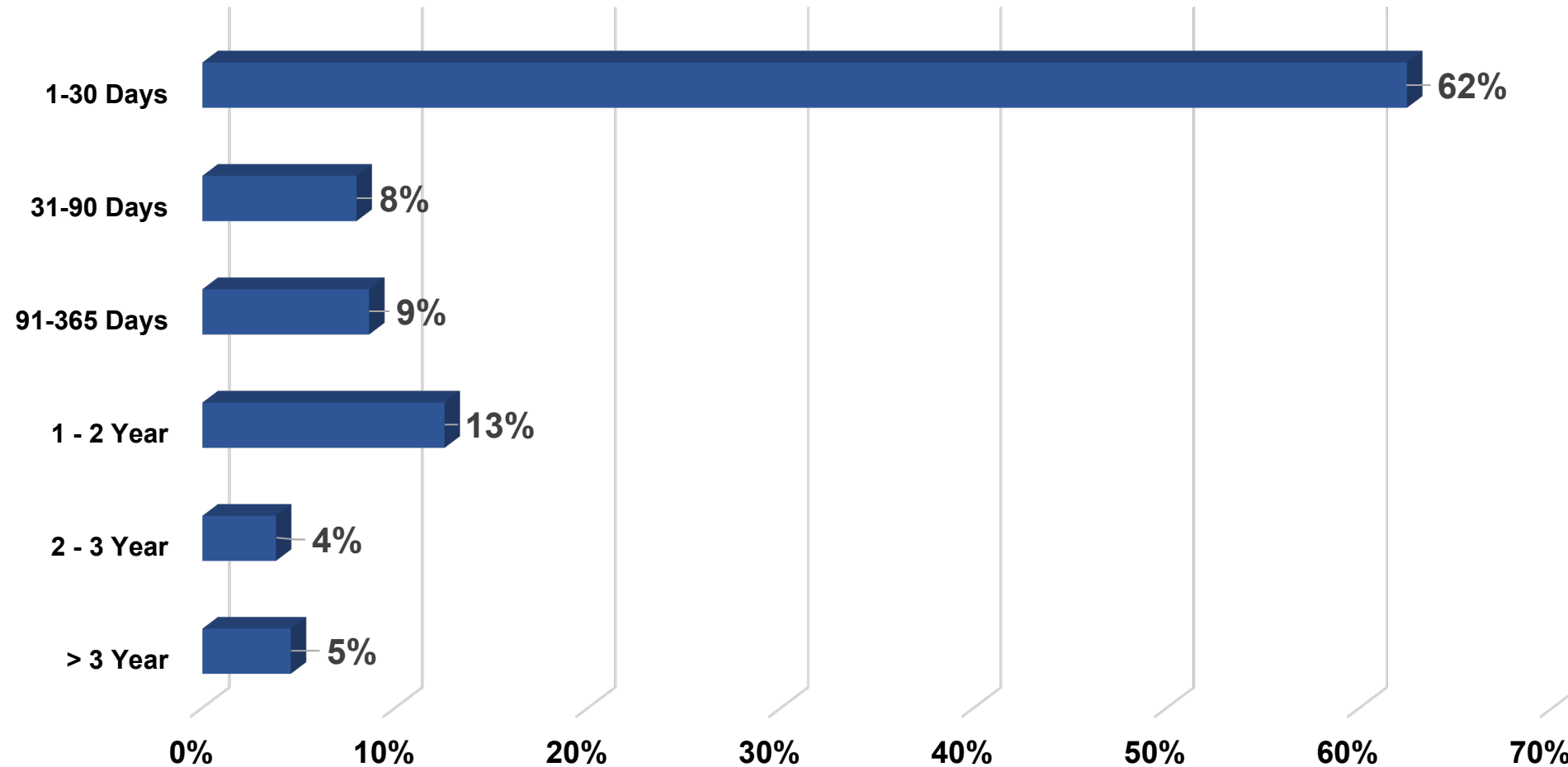
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
January	-0.14%	0.64%	-2.01%	1.47%	1.33%	2.77%	0.76%	-0.71%	-2.36%	3.13%
February	2.10%	1.71%	-0.43%	1.41%	-1.84%	0.90%	-1.77%	0.86%	-1.75%	-0.82%
March	0.13%	-0.08%	3.33%	0.60%	0.07%	1.33%	-9.71%	0.09%	-0.22%	0.82%
April	0.60%	1.02%	1.24%	1.14%	-0.01%	0.88%	4.56%	1.94%	-1.90%	0.74%
May	1.43%	0.03%	0.42%	1.04%	-0.60%	-0.14%	3.26%	1.10%	-0.47%	0.37%
June	1.01%	-1.36%	0.17%	0.58%	-0.52%	2.43%	2.47%	1.02%	-3.20%	2.25%
July	-0.54%	-0.07%	1.81%	1.26%	0.76%	0.69%	2.67%	0.69%	2.38%	1.71%
August	1.29%	-2.79%	0.65%	1.00%	0.06%	-0.36%	1.84%	1.31%	-0.94%	-0.67%
September	-1.76%	-1.76%	0.60%	0.43%	0.31%	-0.34%	-0.49%	-0.52%	-3.71%	-1.20%
October	0.78%	2.80%	-0.21%	0.65%	-2.08%	0.87%	-0.33%	1.23%	1.23%	
November	0.51%	-0.28%	-0.52%	0.58%	-0.19%	0.96%	4.28%	-0.93%	2.46%	
December	-1.20%	-1.25%	1.30%	0.96%	-0.50%	1.75%	3.23%	1.67%	-0.35%	
Year	4.22%	-1.57%	6.35%	11.70%	-3.20%	12.42%	10.41%	7.96%	-8.60%	6.48%
	Greater than +1.5%		Between 0% and +1.5%			Between -1.5% and 0%			Less than -1.5%	

Data as of 30 September 2023.

# Long-Term Portfolio Full Redemption Liquidity

Annex A

62% of the Gavi Portfolio has full liquidity of 30 days or less



Data as of 30 September 2023.



# Thank you