

# INVESTMENT COMMITTEE CHAIR REPORT

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BOARD MEETING

**Stephen Zinser**

28-29 November 2018, Geneva, Switzerland



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# Market Sentiment: Apprehensive

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**Risks to global growth mounting:** Growth in advanced economies is slowing and a US recession is possible in the next 18 to 24 months.

**Geopolitical risks rising:** Markets are paying close attention to Sino-US trade tensions, Brexit and the Italy/EU dispute.

**Normalisation of monetary policy:** US Federal Reserve hikes and balance sheet reduction is draining liquidity. European Central Bank's buying programme will terminate in December 2018.

# Market Commentary

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**Equity markets:** Systemic de-risking, technology valuation fears and peaking corporate earnings have contributed to recent volatility.

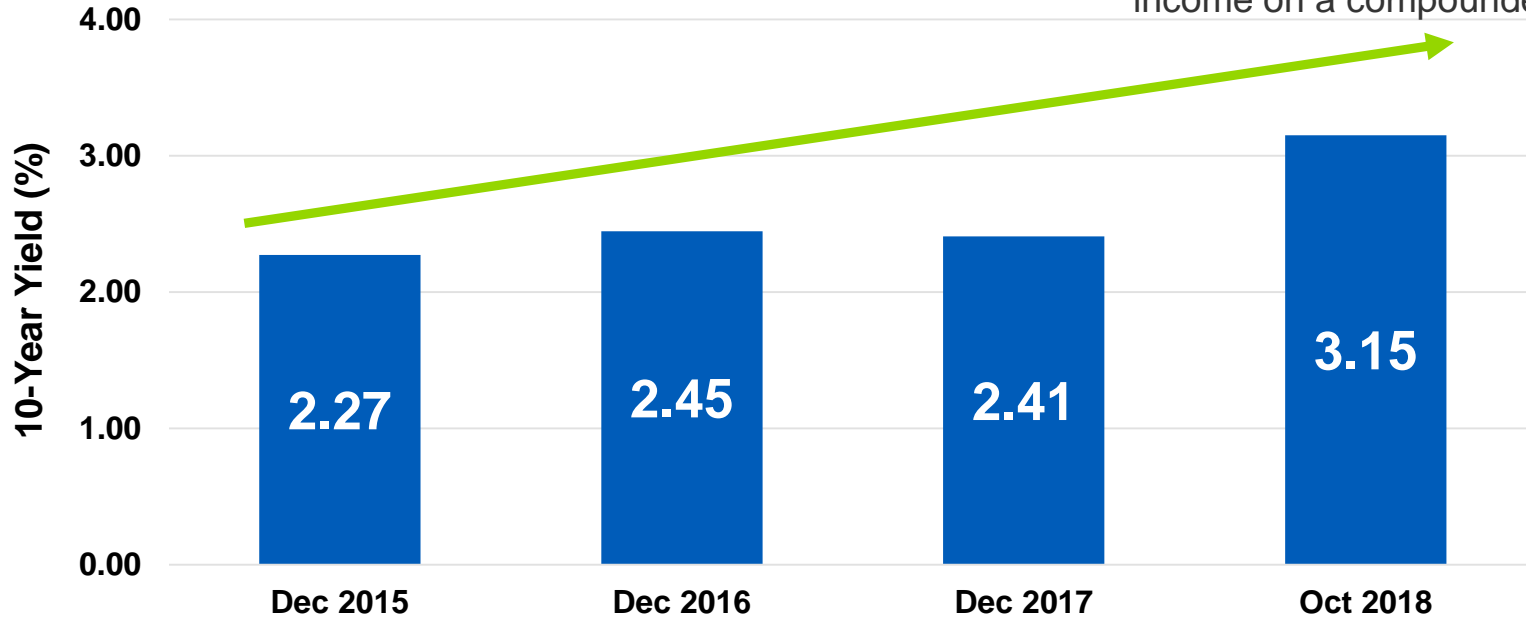
**Fixed income:** Niches such as short-dated fixed income delivered year-to-date positive performance. However, fixed income is not providing a ballast to equity volatility.

**Currencies:** US dollar marched higher in 2Q and 3Q. Emerging market currencies were exceptionally weak.

**Commodities:** In a reversal, oil entered a bear market (>20% drop from its highest price), reflecting worries about over-supply and global growth.

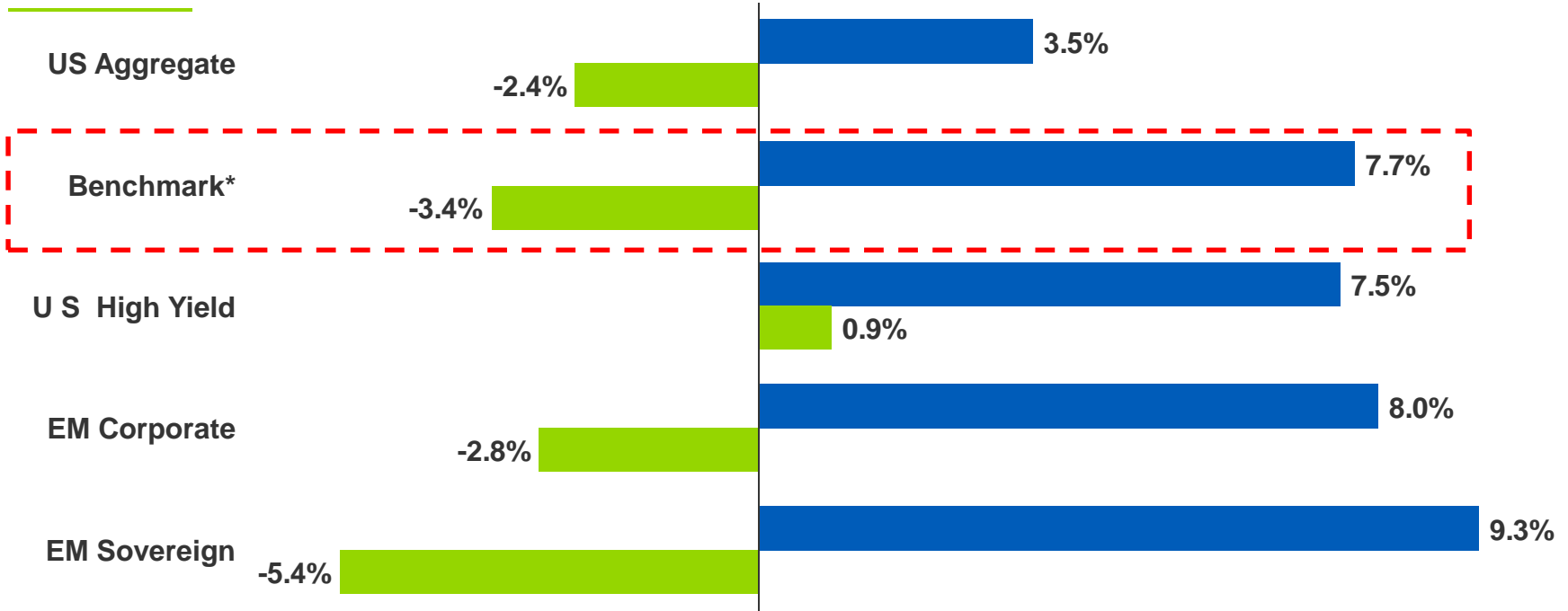
# 10-year US Treasury Yields

Higher yields initially hurt price levels but subsequently provided increased income on a compounded basis.



Data as of 31 October 2018  
Source: Bloomberg

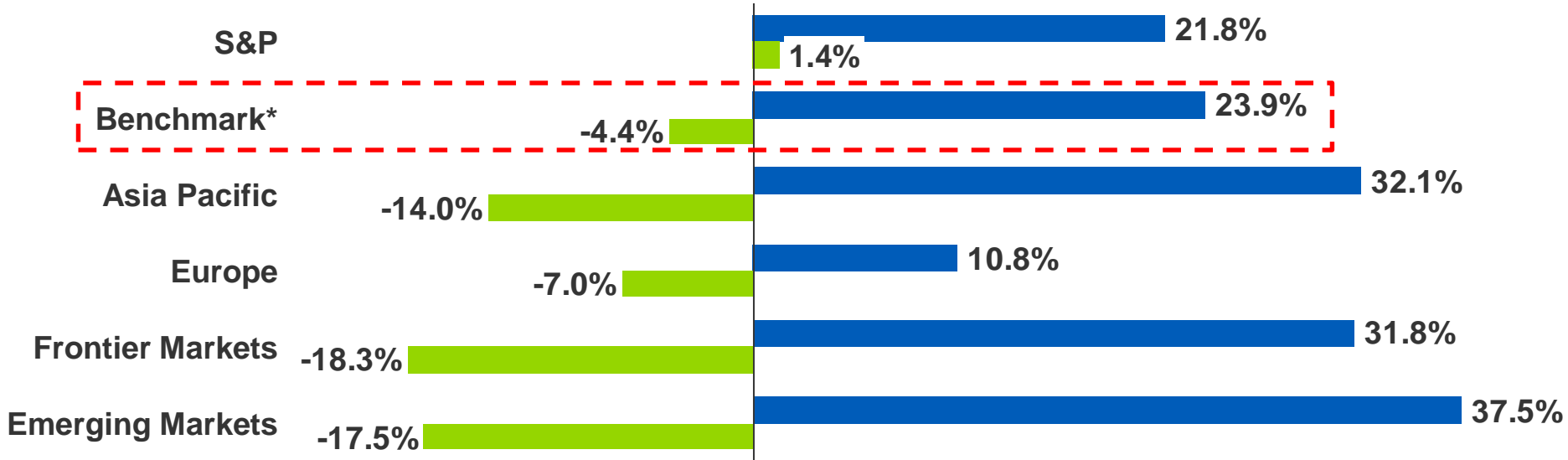
# Fixed Income Index Returns



\*Barclays Multiverse Total Return Index Value Unhedged USD  
Data as of 31 October; Source: Bloomberg

2017 YTD

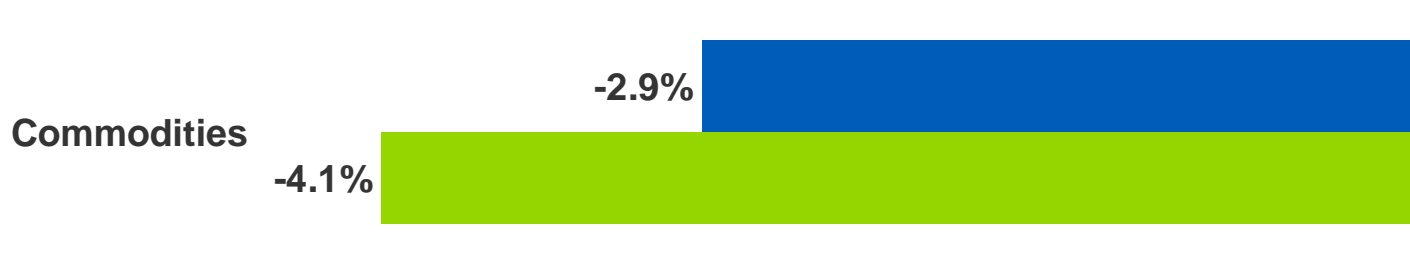
# Equity Index Returns



\*MSCI ACWI IMI is a broad global equity index  
Data as of 31 October 2018; Source: Bloomberg

# Tactical Index Returns

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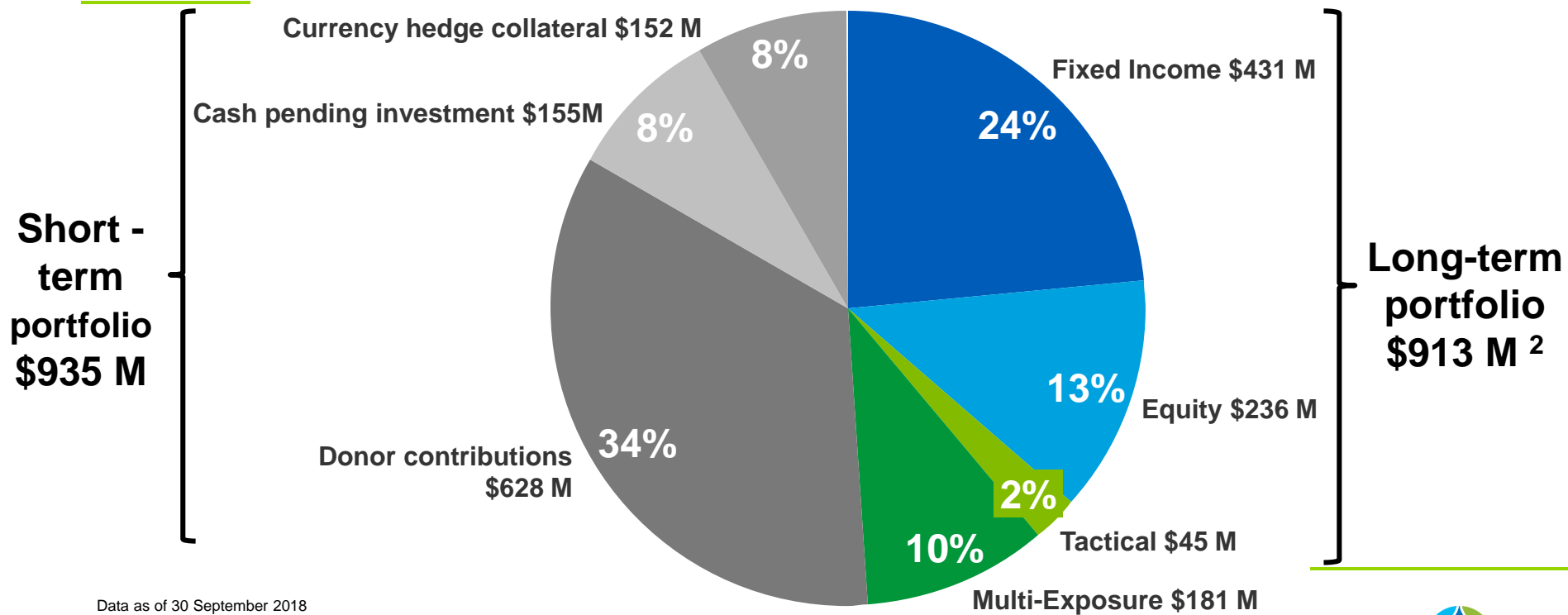
\*Composite benchmark: BofA 91-Day Treasury Bill Index until 31-Dec-2014; BofA Merrill Lynch US 1-Year Treasury Bill Index from 1-Oct-2014 to present. Data as of 31 October 2018. Source: Bloomberg.

# Portfolio Objectives

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



# Gavi Portfolio Allocation (US\$ 1.8 Billion)<sup>1</sup>



Data as of 30 September 2018

<sup>1</sup> Excludes UNICEF Procurement account of \$717M, IFFIm assets, and \$133 M in operating cash

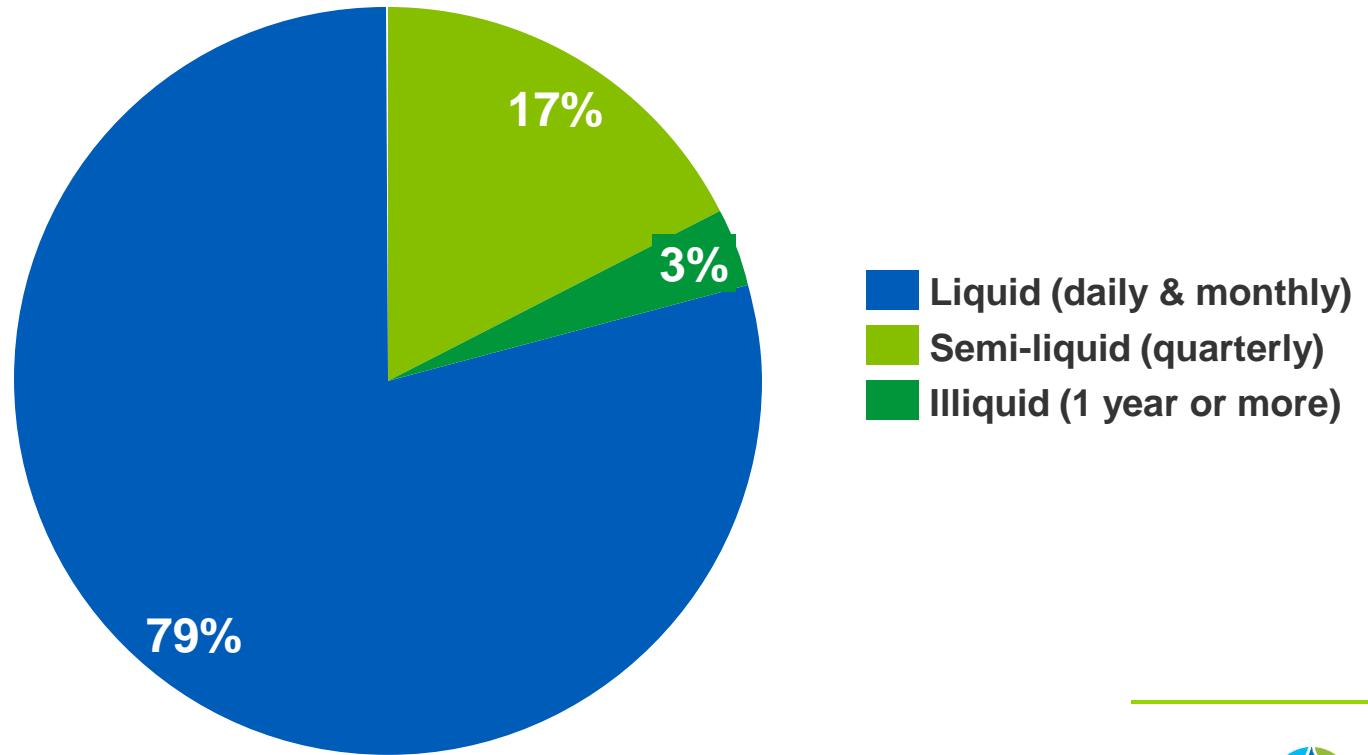
<sup>2</sup> Includes \$20 M in Advanced Contributions, not reflected in pie chart

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# Long-Term Portfolio Liquidity

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Data as of 30 September 2018

# Portfolio Net Returns

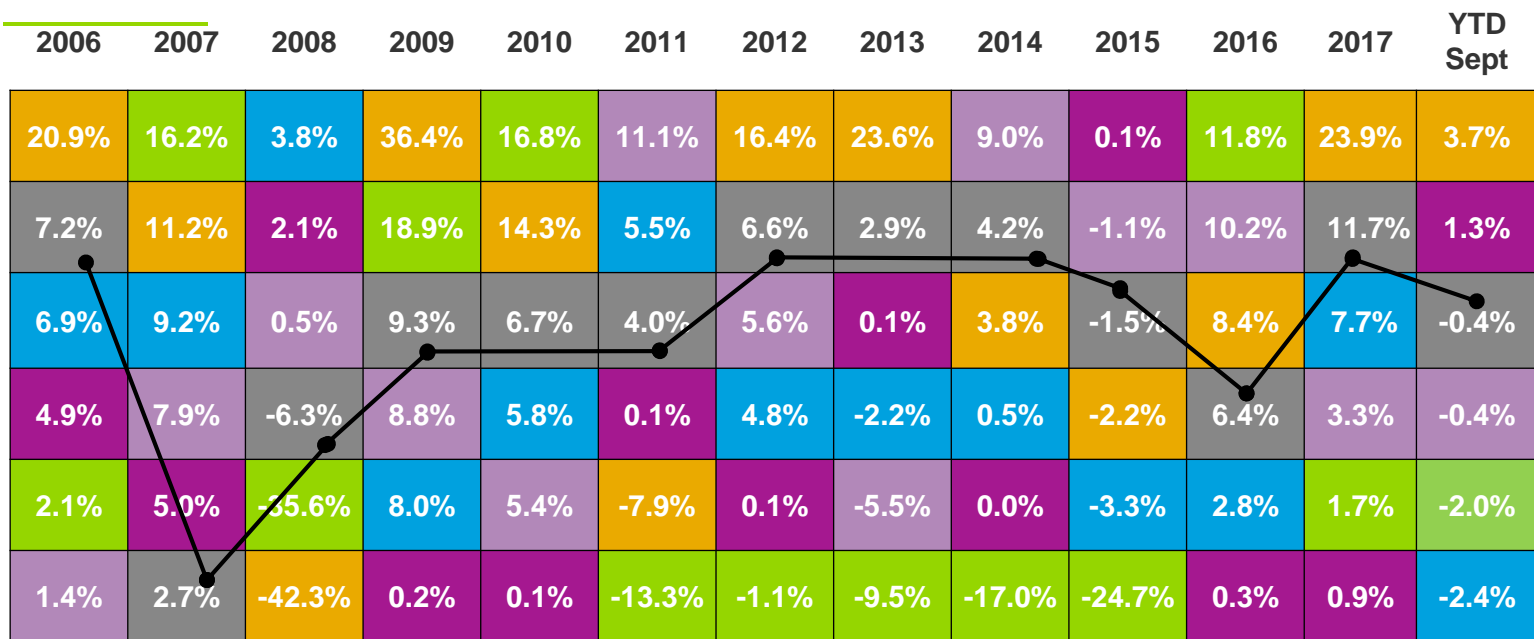
The total portfolio generated estimated year-to-date net investment income of US\$ 13.7 million, and since inception, US\$ 564.7 million.

Portfolio returns	2012	2013	2014	2015	2016	2017	YTD
Long-term portfolio	6.6%	2.9%	4.2%	-1.5%	6.4%	11.7%	-0.4%
Short-term portfolio	0.9%	0.4%	0.2%	0.4%	0.9%	1.0%	0.9%

Data as of 30 September 2018

Source: internal estimates, short-term portfolio figures based on strategies managed by the Investments team

# Comparison of Indices Returns



Data as of 31 October 2018  
Source: Bloomberg, internal estimates

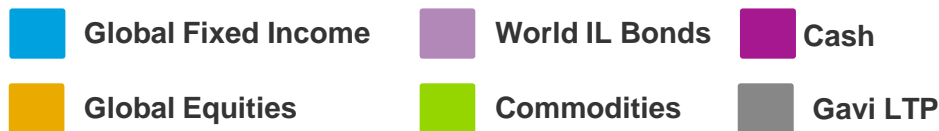
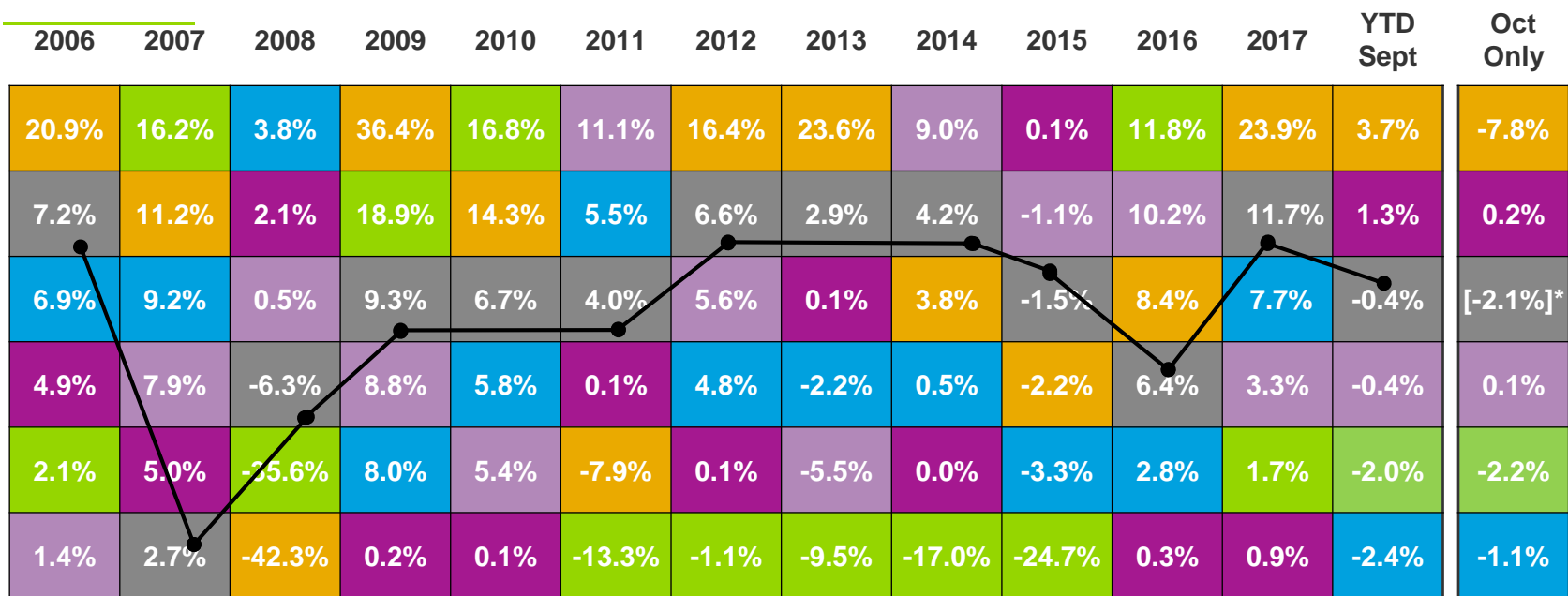
\*Preliminary

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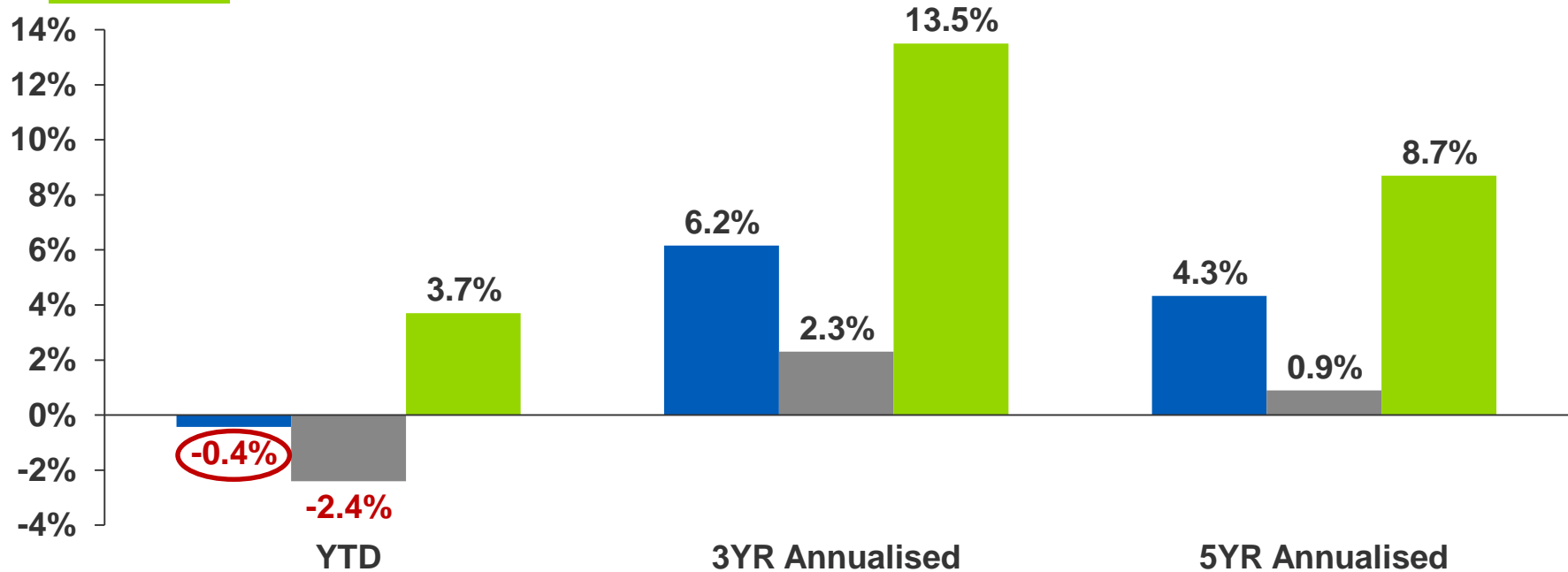


# Comparison of Indices Returns



Data as of 31 October 2018  
 Source: Bloomberg, internal estimates  
 \*Preliminary

# Long-term Portfolio Performance



Data as of 30 September 2018

Source: Bloomberg, internal estimates

(1) Barclays Multiverse is a broad, global fixed income index.

(2) MSCI ACWI is a broad, global equity index.

**Gavi** **Barclays Multiverse**<sup>1</sup> **Global Equities**<sup>2</sup>

# Key Highlights 2018

## Manager Rotation

- The Committee oversaw heightened activity in the portfolios in preparation for more volatile financial markets and a late cycle investment landscape. It continues to add less-directional and lowly correlated strategies that should help dampen volatility.

## Inv Policy/Asset Allocation

- The Committee modestly extended the liquidity profile of the long-term portfolio to include private debt (up to 10%). At year-end the Committee also approved new targets for each major exposure and modestly raised the ceiling for the equity allocation.

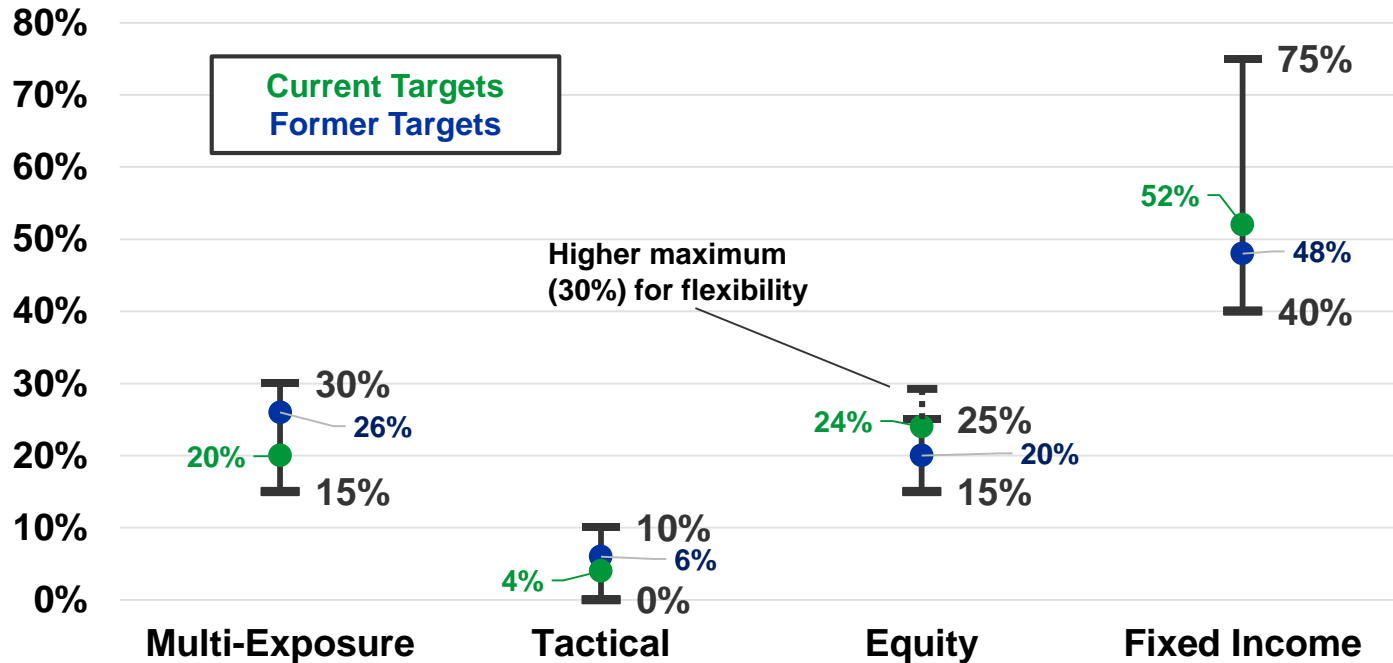
## ESG & SRI Screening

- The Committee terminated a manager for persistent violations, and approved the exchange of a passive US equity strategy into a SRI equivalent. It approved a relationship with Ceres, a sustainability non-profit as a means to collectively advocate for actions to mitigate climate change risks.

## Risk Management

- The Committee concluded their annual exercise of asset allocation using three risk-based measurements and finalised targets for 2019. The Committee also reviewed the outcomes of regular manager monitoring efforts, culminating in an annual risk review that systematically describes how and where the Investments team will focus its efforts in 2019.

# Long-Term Portfolio: Asset Allocation Ranges





# 2018 Manager Rotation

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The Investment Committee authorised:

## Redemptions

- US\$ 218 Million

## New Investments

- US\$ 240 Million

## SRI Enhancements

- US\$ 63 Million

## SRI Terminations

- US\$ 38 Million

# Long-Term Portfolio's Value at Risk (VaR)



# Long-Term Portfolio Monthly Returns

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
January	0.62%	2.31%	-0.69%	0.77%	0.17%	1.51%	0.56%	-0.14%	0.64%	-2.01%	1.47%	1.33%
February	0.99%	-0.24%	-1.62%	0.46%	0.53%	0.44%	0.05%	2.10%	1.71%	-0.43%	1.41%	-1.84%
March	0.05%	-0.84%	1.86%	0.21%	0.39%	-0.39%	0.68%	0.13%	-0.08%	3.33%	0.60%	0.07%
April	0.32%	0.23%	1.69%	0.98%	1.39%	0.69%	1.10%	0.60%	1.02%	1.24%	1.14%	-0.01%
May	-0.47%	-0.14%	2.26%	-0.01%	0.39%	-0.40%	-1.29%	1.43%	0.03%	0.42%	1.04%	-0.60%
June	-1.15%	-0.59%	0.46%	0.94%	-0.35%	0.64%	-2.46%	1.01%	-1.36%	0.17%	0.58%	-0.52%
July	-0.33%	-1.01%	1.36%	1.23%	1.53%	1.74%	1.40%	-0.54%	-0.07%	1.81%	1.26%	0.76%
August	1.08%	0.42%	0.95%	1.07%	0.21%	0.48%	-0.81%	1.29%	-2.79%	0.65%	1.00%	0.06%
September	1.56%	-3.30%	1.20%	0.70%	-1.42%	0.69%	1.83%	-1.76%	-1.76%	0.60%	0.43%	0.31%
October	0.62%	-5.46%	0.81%	0.92%	0.94%	0.03%	1.54%	0.78%	2.80%	-0.21%	0.65%	[-2.08%]*
November	-0.24%	-0.77%	1.41%	-0.84%	-0.53%	0.55%	0.14%	0.51%	-0.28%	-0.52%	0.58%	
December	-0.35%	3.14%	-0.70%	0.11%	0.72%	0.42%	0.20%	-1.20%	-1.25%	1.30%	0.96%	
	Greater than +1.5%			Between 0% and +1.5%			Between -1.5% and 0%			Less than -1.5%		

Data as of 31 October 2018

\* Preliminary

# Key priorities first half of 2019

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## Maintain focus on capital preservation

With risks mounting and heightened potential for increased volatility, the Committee elected to keep the portfolio at the conservative end of asset allocation scenarios. Gavi has sufficient cash to re-deploy when the time is right.

## Engage with new auditors

The change in auditor will likely lead to a deeper and more comprehensive review, requiring more staff time.

## Foster ESG and sustainable investment practices

The Committee supports further fostering an ESG-focused investment approach and selected sustainability engagements in partnership with like-minded investors.

**Thank you**

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