

# INVESTMENT COMMITTEE CHAIR REPORT

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BOARD MEETING

**Stephen Zinser**

4-5 December 2019, Delhi, India



Reach every child

[www.gavi.org](http://www.gavi.org)

# Market Commentary

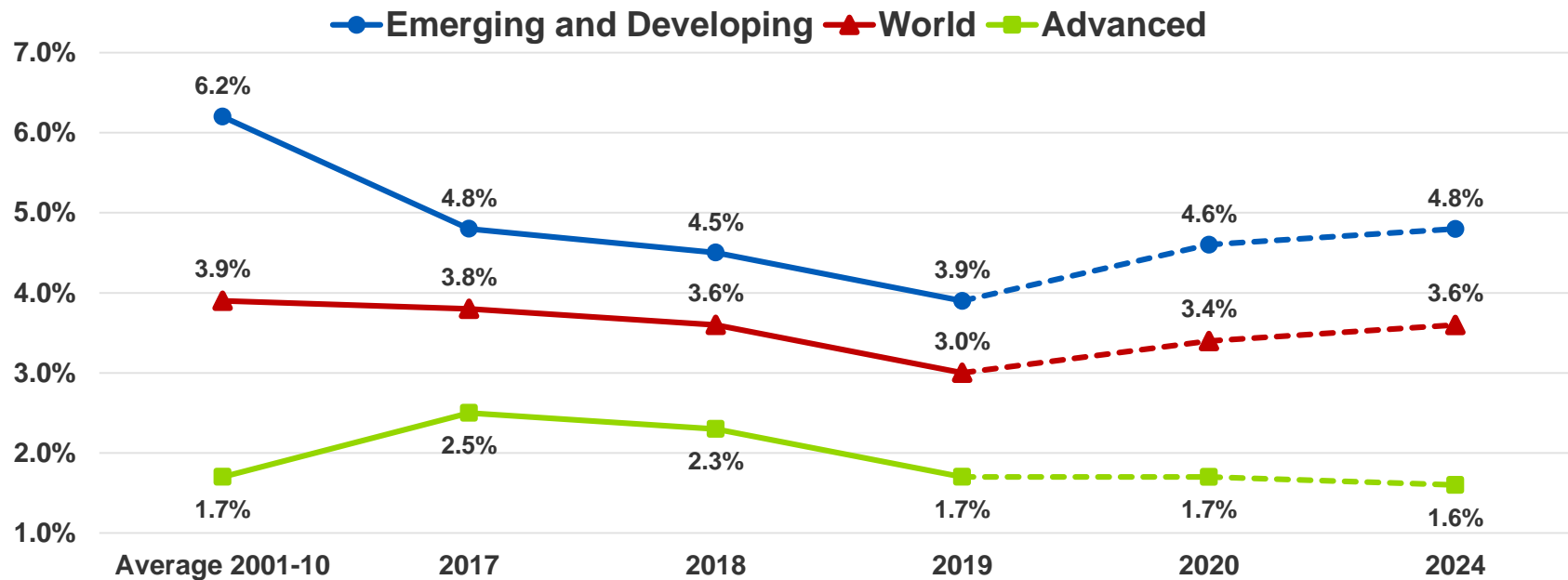
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**Equity markets:** Optimism about a US-China trade deal, US Federal Reserve rate cuts, the continued strength of the US consumer, and the prospect of greater global fiscal stimulus drove markets higher.

**Fixed income:** US Fed rate cuts helped lift prices and lower yields.

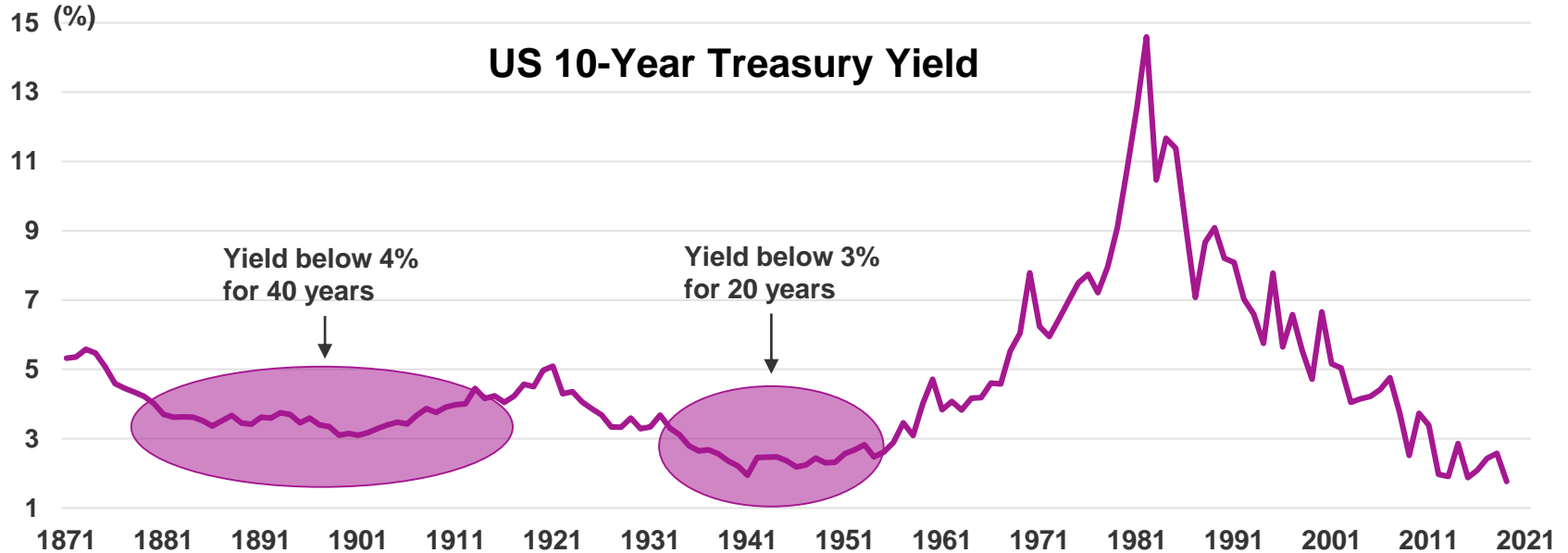
**Commodities:** Middle East tensions led to increased energy prices in Q3. However, US energy-company bankruptcy filings are on par with 2016 when energy markets were stressed.

# Real GDP Growth (%): Modest But Not Bad



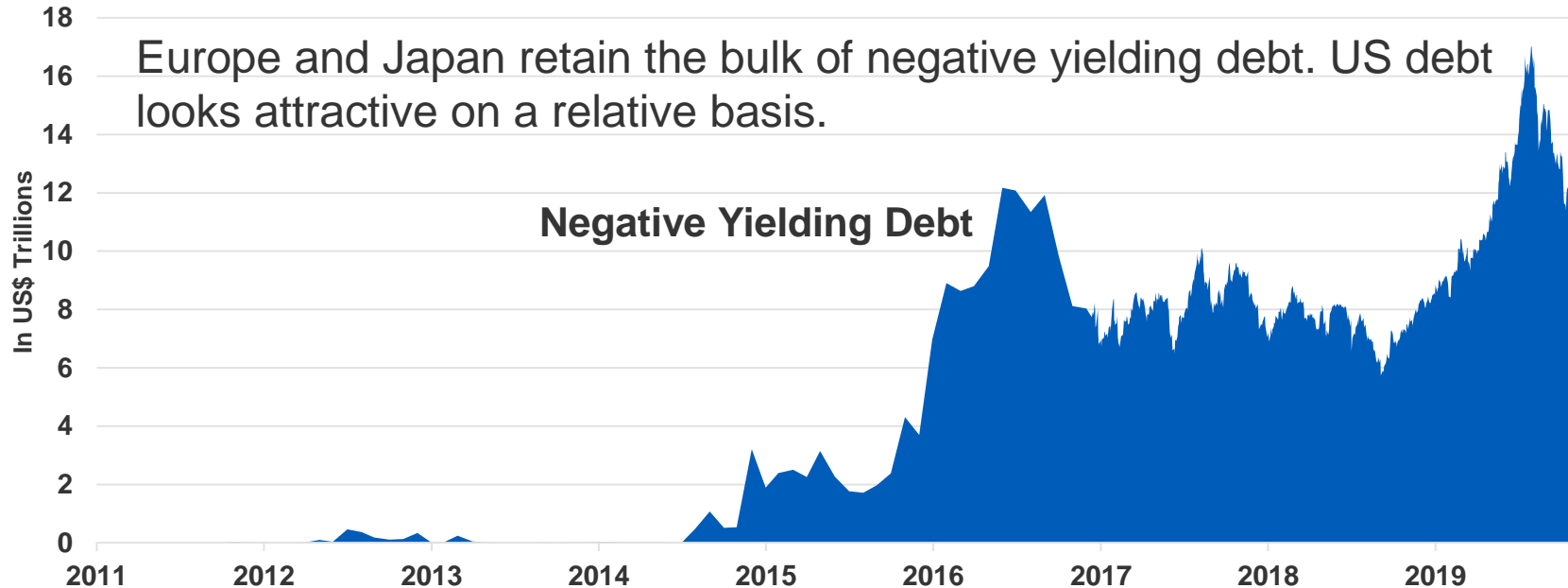
Source: IMF World Economic Outlook (October 2019).

# Interest Rates Can Stay Low



Source: Robert Shiller. Data as of 25 October 2019

# Negative-Yielding Debt



Source: Bloomberg as of 19 November 2019

# Market Sentiment and Outlook

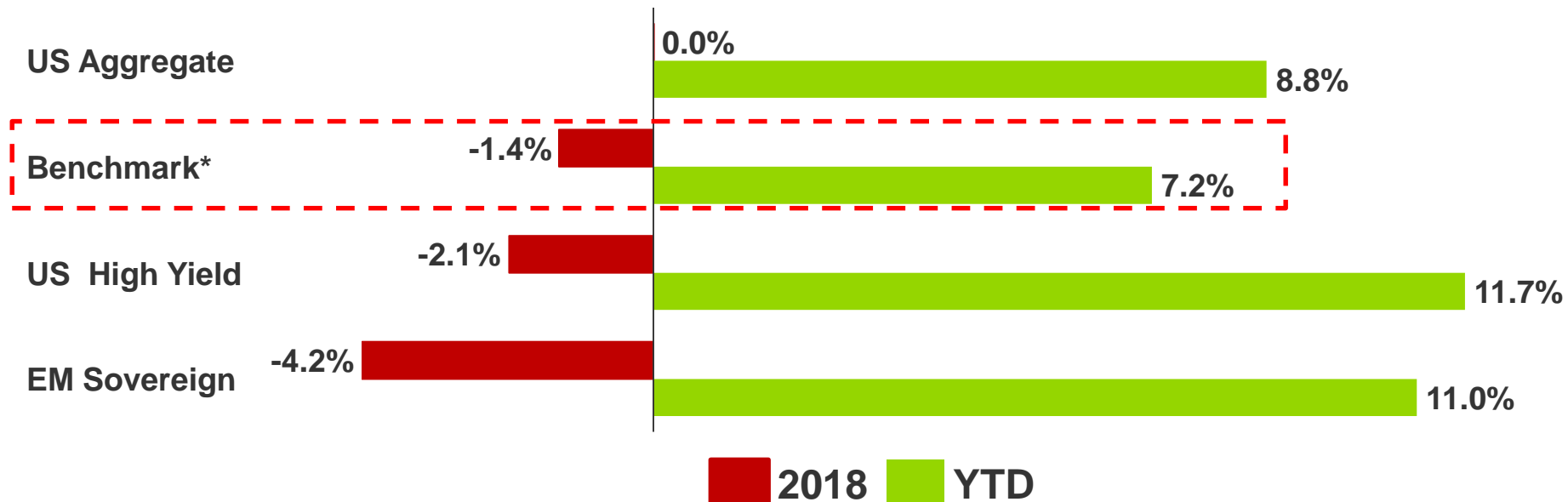
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**Risk assets and safe-haven assets look fully valued:** Market opportunities going forward will likely be limited and returns lower.

**Geopolitical risks:** Elections, trade tensions and populist protests centered on economic inequality may lead to a re-shaping of national priorities.

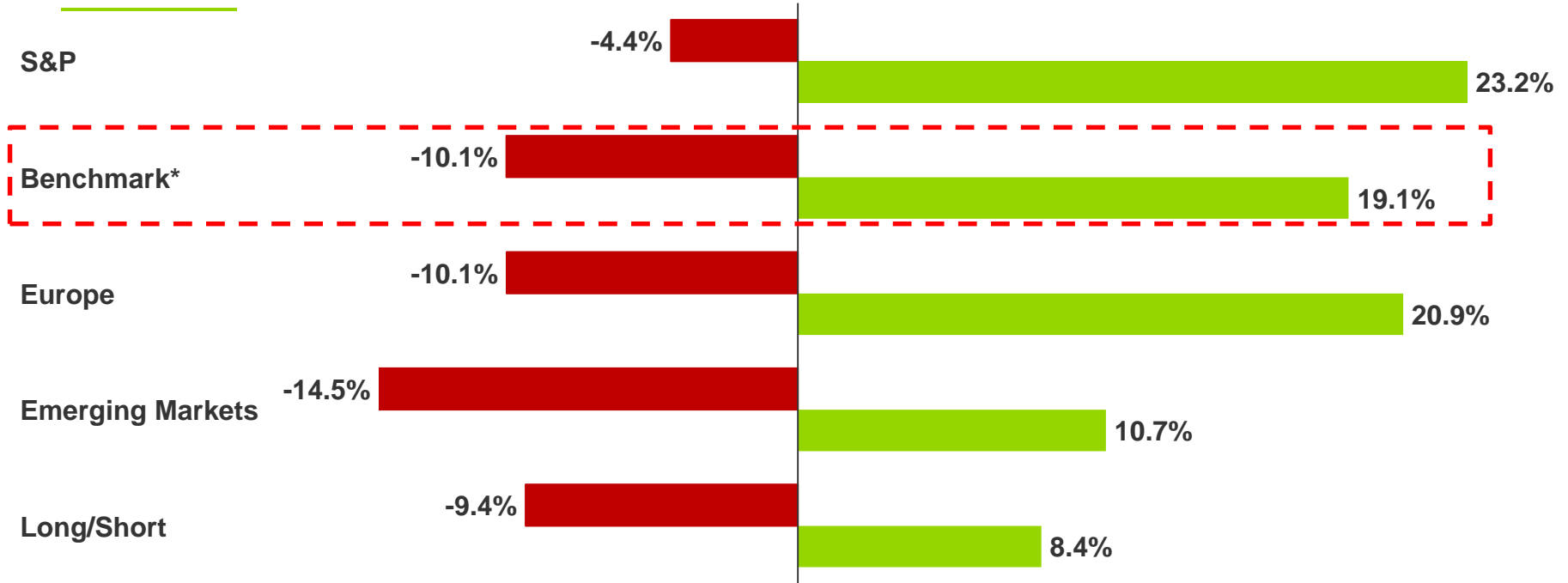
**Macro environment:** November provided some signs that the worst of the “soft patch” is behind the global economy. However, commodity markets do not agree.

# Fixed Income Index Returns



Barclays Multiverse Total Return Index Value Unhedged USD  
Data as of 31 October 2019; Source: Bloomberg

# Equity Index Returns

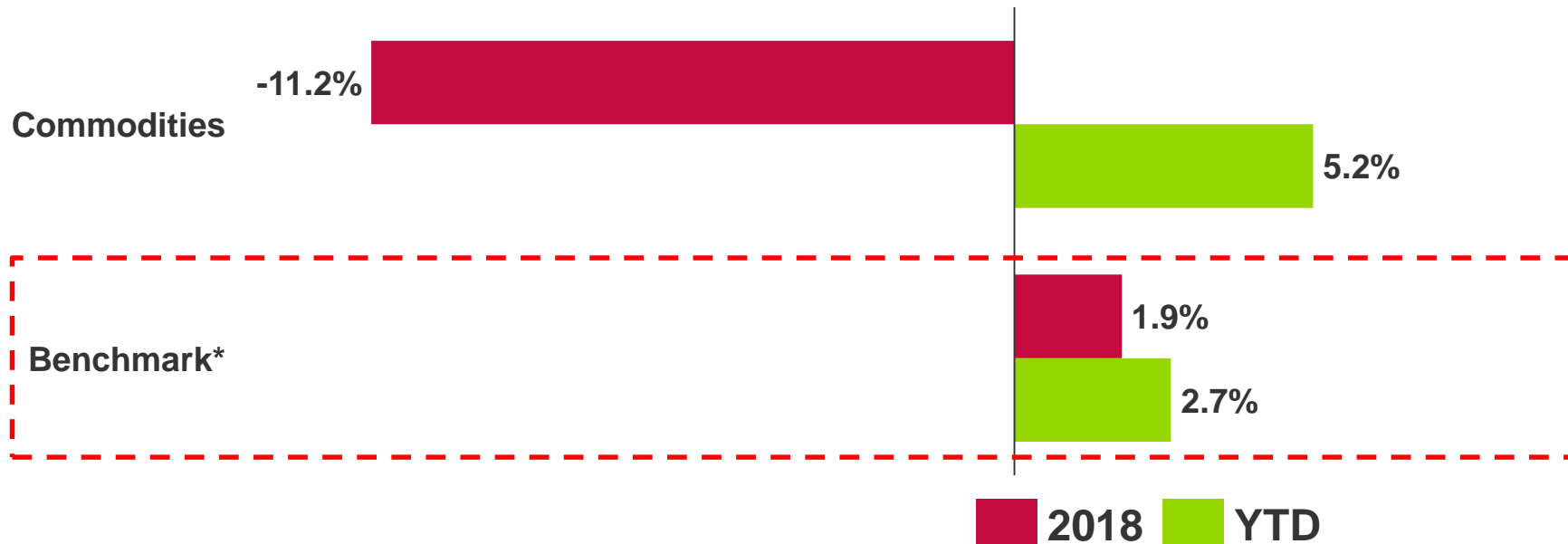


\*MSCI ACWI IMI is a broad global equity index  
Data as of 31 October 2019; Source: Bloomberg

2018 YTD

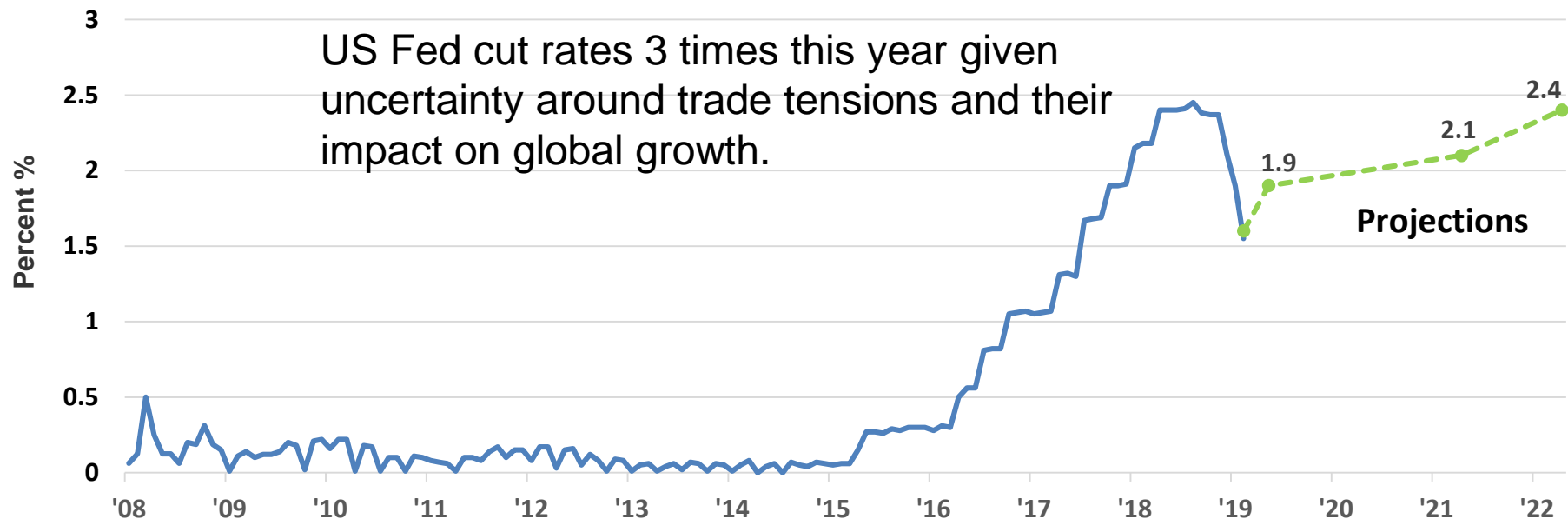


# Tactical Index Returns



\*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 2019. Source: Bloomberg.

# US Federal Reserve Pre-emptively Cuts Rates

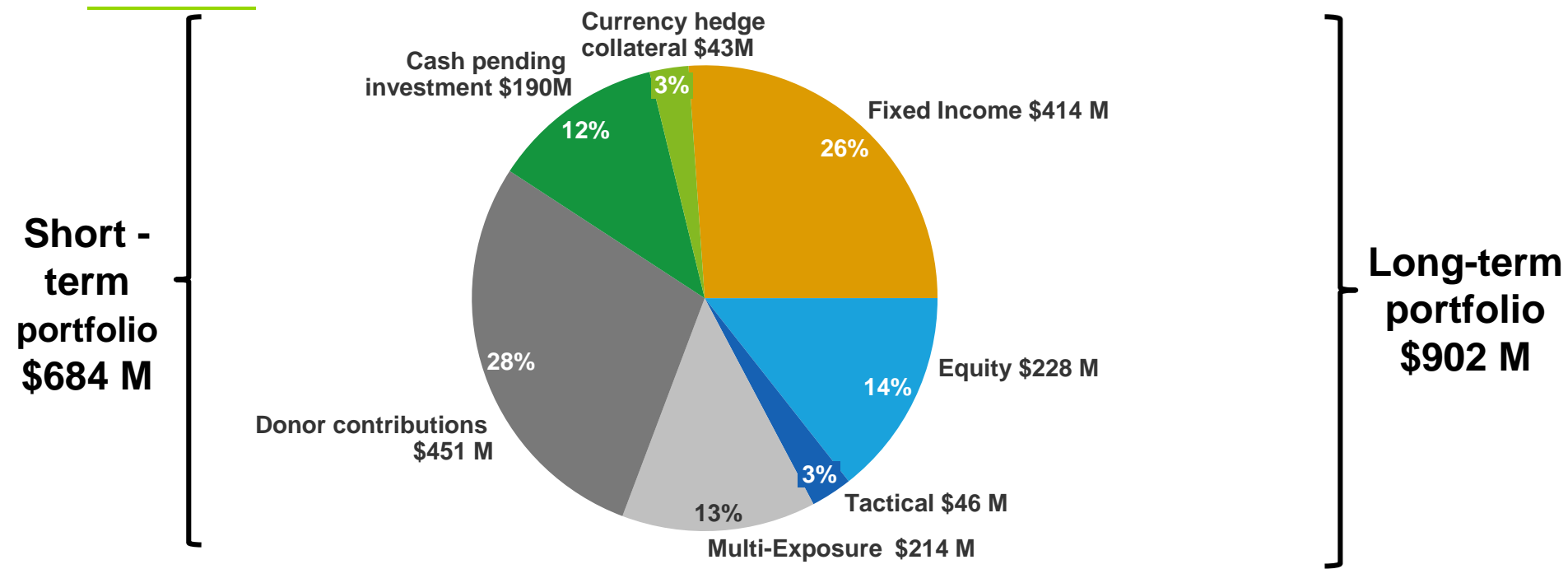


Source: Bloomberg as of 31 October 2019, FOMC projections as of Sept 2019

# 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\$ 1.6 B)<sup>1</sup>



Data as of 31 October 2019

<sup>1</sup> Excludes UNICEF Procurement account of \$496M, IFFIm assets, and \$89 M in operating cash

# Portfolio Net Returns

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**The total portfolio generated estimated year-to-date net investment income of US\$ 105.4 million, and since inception, US\$ 654.9 million.**

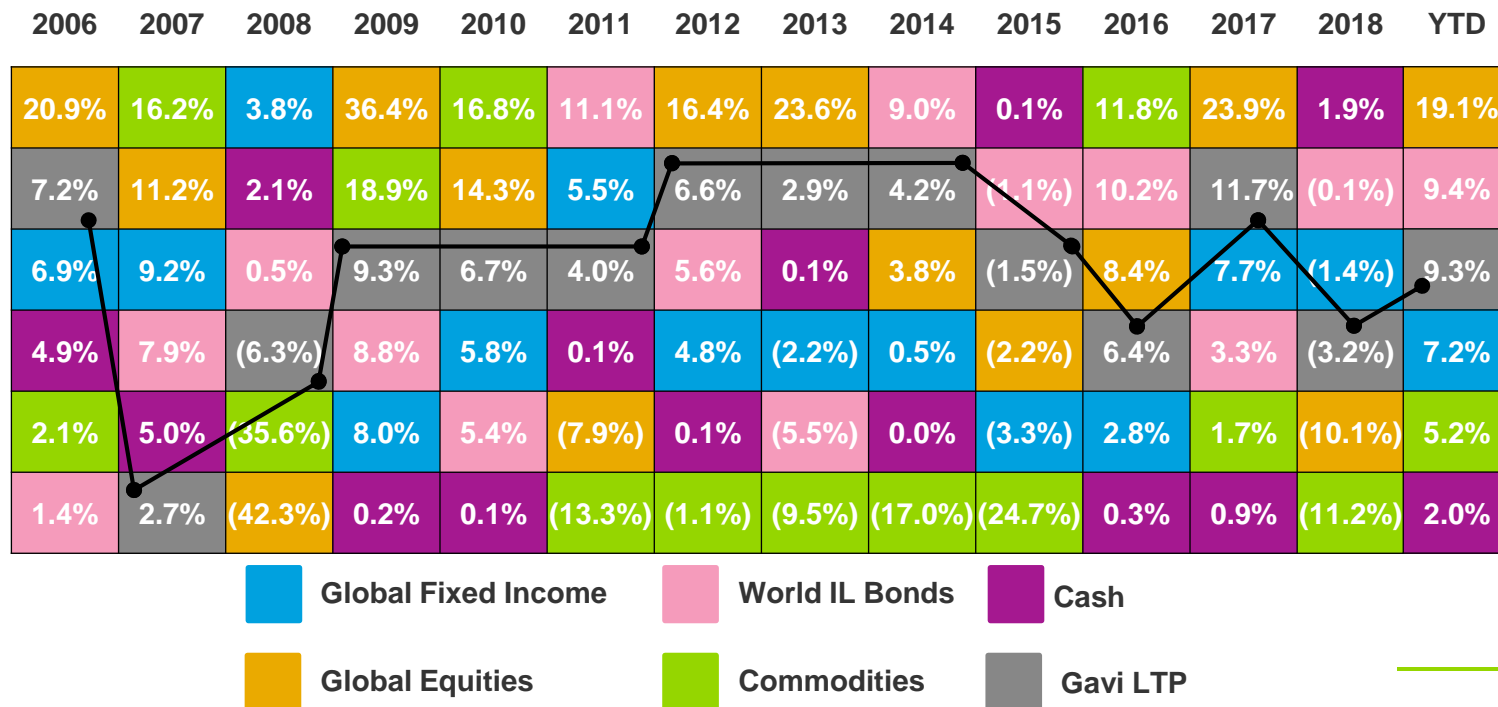
Portfolio returns	2013	2014	2015	2016	2017	2018	YTD
Long-term portfolio	2.9%	4.2%	-1.5%	6.4%	11.7%	-3.2%	9.3%
Short-term portfolio	0.4%	0.2%	0.4%	0.9%	1.0%	1.8%	3.0%

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Data as of 31 October 2019

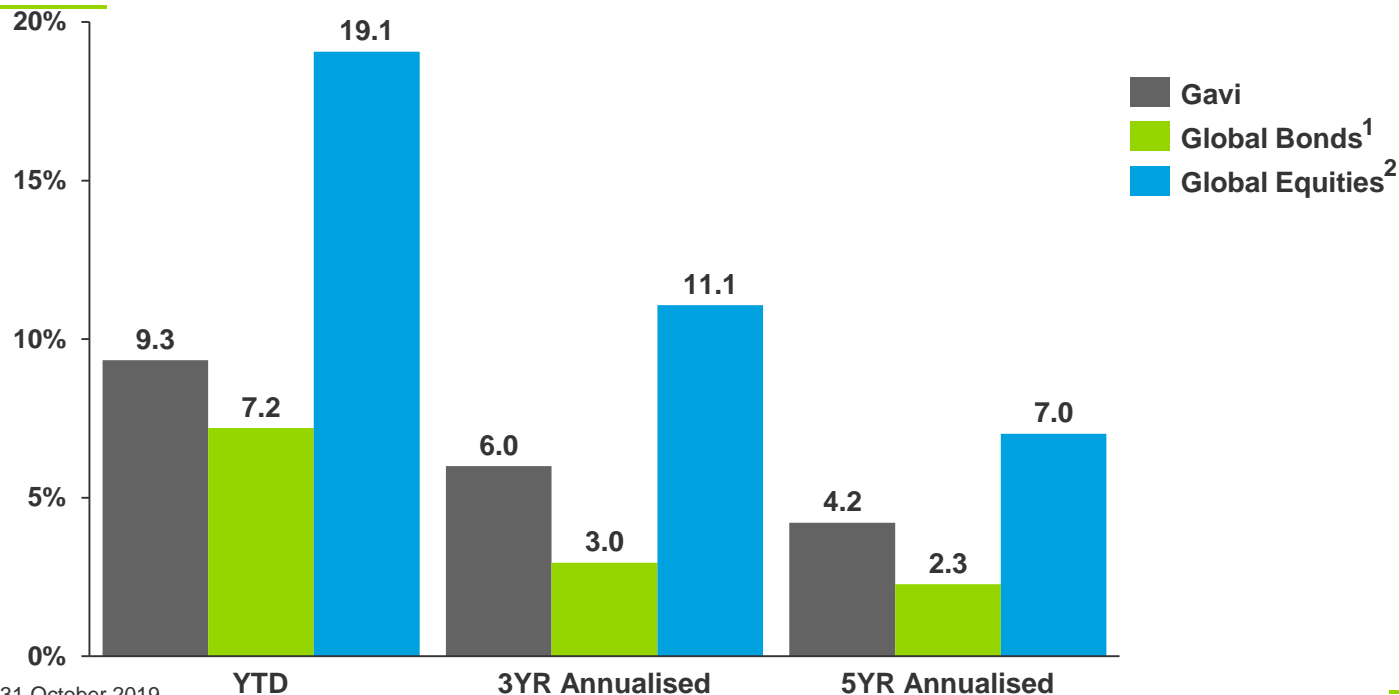
Source: internal estimates, short-term portfolio figures based on strategies managed by the Investments team

# Comparison of Index Returns



Data as of 31 October 2019  
Source: Bloomberg, internal estimates

# Long-term Portfolio Performance



Data as of 31 October 2019

Source: Bloomberg, internal estimates

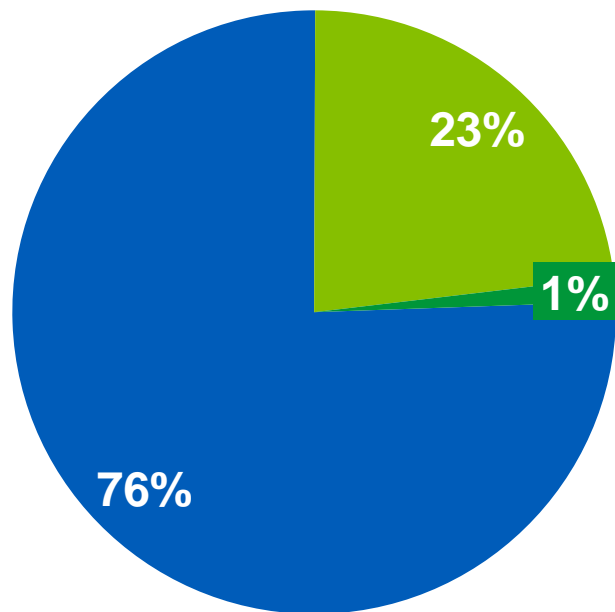
(1) Barclays Multiverse is a broad, global fixed income index.

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

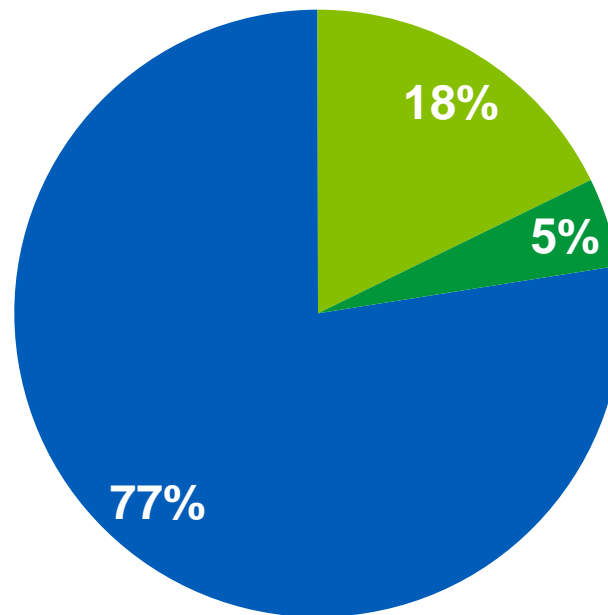
# Long-Term Portfolio Liquidity

- Liquid (daily & monthly)
- Semi-liquid (quarterly)
- Illiquid (1 year or more)

April 2019

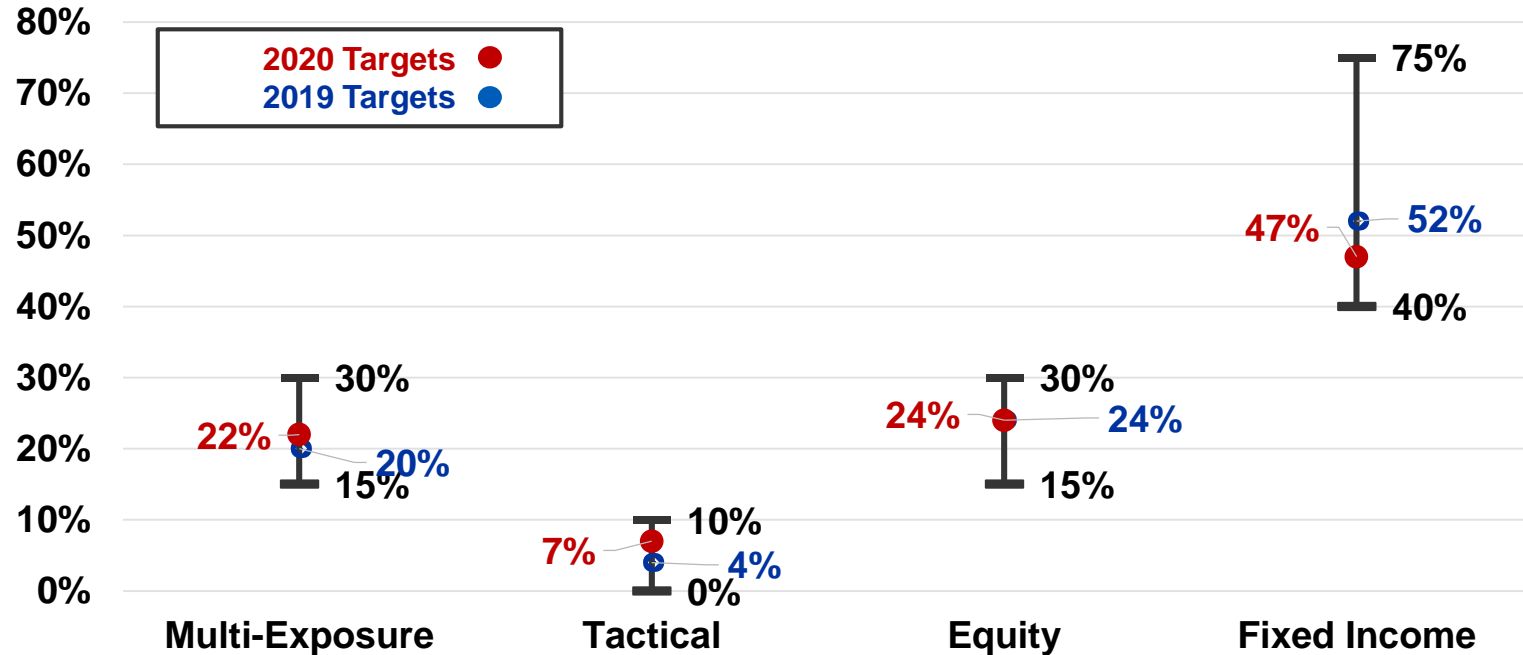


October 2019





# Asset Allocation: Minor Changes To Targets



# 2019 Manager Rotation

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**The Investment Committee authorised:**

## Redemptions

- **US\$ 96 Million**

## New Investments

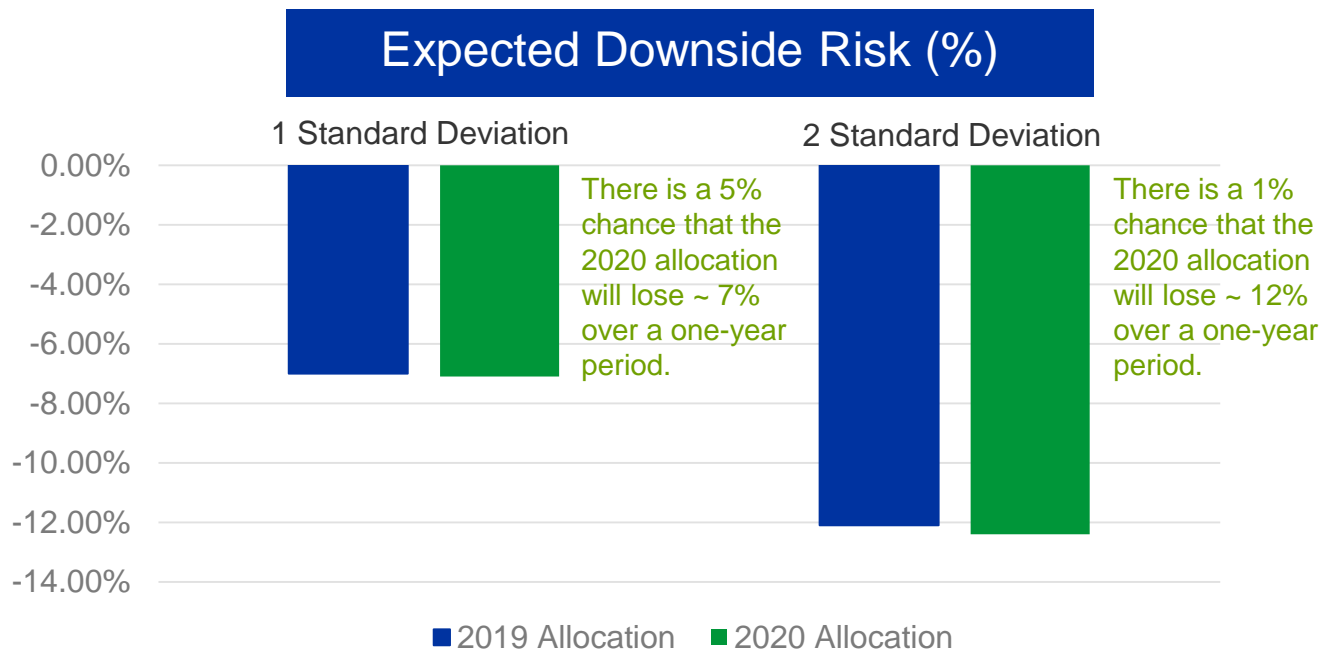
- **US\$ 90 Million**

## SRI Enhancements

- **US\$ 65 Million**

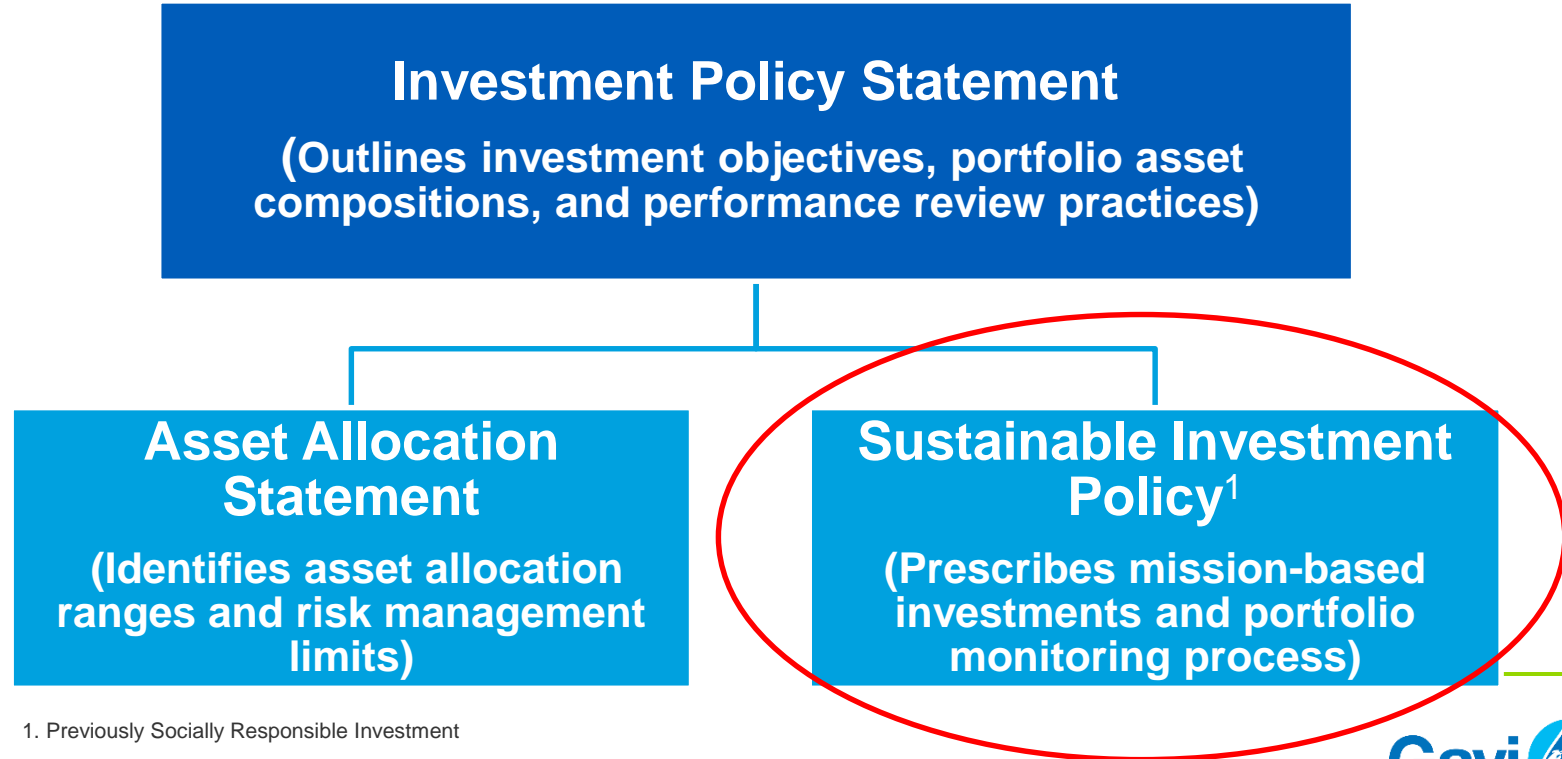
Data as of 30 November 2019

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



# Investment Policies

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1. Previously Socially Responsible Investment

# Why Integrate Climate Change Risk

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- A sustainable future supports Gavi's programmatic outcomes so there is a strong basis for integrating sustainability and evaluating climate change risk in the investment portfolios.
- The health effects of climate change disproportionately affect children, from the womb through adolescence.
- In the November 2019 *Lancet Countdown*, a report focused on the changing profile of climate change, the authors expressed the concern that climate change is increasing infectious disease transmissions.

# Evaluating Climate Change Risk

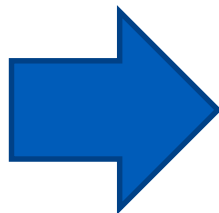
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- Gavi has an opportunity to wield its stature among its investment managers to integrate climate change risk into their investment portfolios and processes.
- The Investment Committee met in September and November to agree and implement 3 incremental policy options to address these risks:
  - ❖ Negative screens for carbon-related product involvement.
  - ❖ Carbon risk rating assessment.
  - ❖ Renewable and sustainable solutions, including Impact Investing.

# Comparison of Negative Screens

## Previous Screens

Socially Responsible
• Tobacco
• Weapons
• Landmines/Cluster munitions
• Child Labour
• Human Rights



## Current Screens

Sustainable
• Tobacco
• Weapons
• Landmines/Cluster munitions
• Child Labour
• Human Rights
• Thermal Coal
• Oil & Gas Production

# Sustainable Investment Policy Summary

	Policy Option	Purpose	Implementation Date(s)
Immediate	(1) Thermal Coal and Oil & Gas Production Screens	Understand Gavi's exposure to carbon heavy industries	2020
Future	(2) Carbon Risk Rating <sup>1</sup> (individual strategy)	Understand how resilient a strategy may be in a transition to a low carbon economy.	2021 onwards
	(3) Renewable and sustainable investment solutions, including Impact Investing	Advances solutions that mitigate further damage from climate change	2020 onwards

(1) Sustainalytics will add research on mid and small cap companies throughout 2020.



# Key Highlights 2H2019

<b>Rebalancing and Manager Rotation</b>	Preparations for a late cycle investment landscape are completed; less directional and lowly correlated strategies have been added.
<b>Asset allocation</b>	The Committee continues to focus on liquidity, capital preservation and regional exposure when considering asset allocation. The Investments team will harvest selected gains from certain strategies and re-deploy cash in either existing strategies or new strategies that meet the objectives of the 2020 asset allocation.
<b>Risk management</b>	The Committee stayed focused on risk in the portfolio given the late cycle environment and perceived investor complacency. The Committee remains vigilant on the number of managers so that the Investments team maintains robust monitoring.
<b>Gender equity</b>	The team integrated gender equity into its 2019 annual risk rating exercise as a risk characteristic, highlighting the value of a diverse workforce. Investment managers will be evaluated for representation of women on their boards, management and investment positions.

# Key Priorities 1H2020

<b>Maintain focus on capital preservation</b>	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.
<b>Diversified Income</b>	Yields on traditional fixed income assets are low. The Investments team will prudently expand private debt exposure and seek other opportunities that may provide consistent income to the investment portfolio.
<b>Implement SIP</b>	Oil and thermal coal screens are first up next year.
<b>Transition to New Chair</b>	The intent is for Afsaneh Beschloss to assume the Investment Committee Chair role in June 2020. She has both multi-lateral institutional and private sector investment experience.

# Appendix

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# Long-Term Portfolio Returns

Exposure vs. Benchmark	2014	2015	2016	2017	2018	YTD
<b>Fixed Income</b>	3.4%	0.9%	6.0%	6.5%	(1.1%)	6.8%
<i>Barclays Multiverse<sup>1</sup></i>	(0.6%)	(3.3%)	2.8%	7.7%	(1.4%)	7.2%
<b>Equity</b>	6.4%	(1.7%)	6.4%	25.3%	(9.2%)	13.2%
<i>MSCI ACWI IMI</i>	3.8%	(2.2%)	8.4%	24.0%	(10.1%)	19.1%
<b>Tactical</b>	5.1% <sup>3</sup>	(10.3%)	16.0%	12.3%	2.1%	4.4%
<i>BofA Merrill US 1-Year Trsy<sup>2</sup></i>	0.1%	0.2%	0.8%	0.6%	1.9%	2.7%
<b>Multi-Exposure</b>	4.4%	(4.3%)	4.7%	14.7%	(2.0%)	13.5%
<i>Credit Suisse Multi-Strategy<sup>4</sup></i>	N/A	N/A	N/A	N/A	N/A	6.5%
<i>BofA Merrill US 3-Month Trsy+ 5%<sup>5</sup></i>	N/A	N/A	N/A	5.9%	7.0%	6.2%
<b>Long-term portfolio</b>	4.2%	(1.6%)	6.4%	11.7%	(3.2%)	9.4%

Data as of 31 October 2019

(1) From 1 March 2014 to present

(2) From 1 October 2014

(3) Inception date 30 May 2014

(4) Benchmark not implemented until March 2019

(5) Benchmark not implemented until March 2016

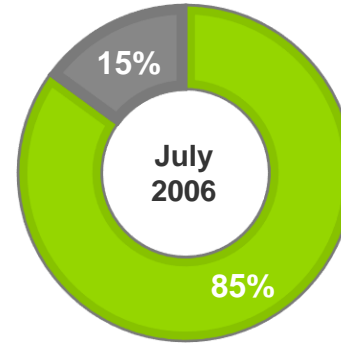
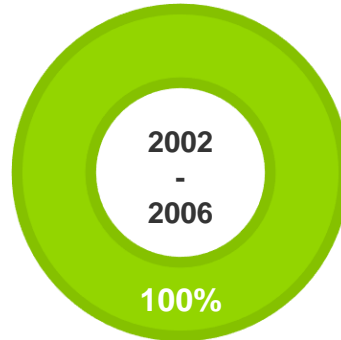
# Long-Term Portfolio Monthly Returns

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD
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%	2.77%
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%	0.90%
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%	1.33%
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%	0.88%
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%	-0.14%
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%	2.43%
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%	0.69%
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%	-0.36%
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%	-0.34%
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%	0.87%
November	-0.24%	-0.77%	1.41%	-0.84%	-0.53%	0.55%	0.14%	0.51%	-0.28%	-0.52%	0.58%	-0.19%	
December	-0.35%	3.14%	-0.70%	0.11%	0.72%	0.42%	0.20%	-1.20%	-1.25%	1.30%	0.96%	-0.50%	
	Greater than +1.5%		Between 0% and +1.5%				Between -1.5% and 0%			Less than -1.5%			

Data as of 31 October 2019

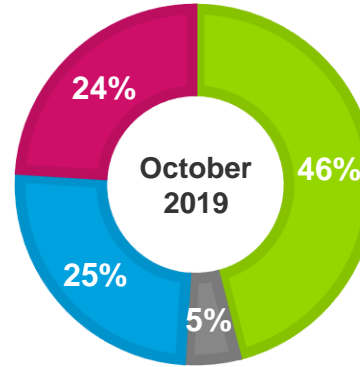
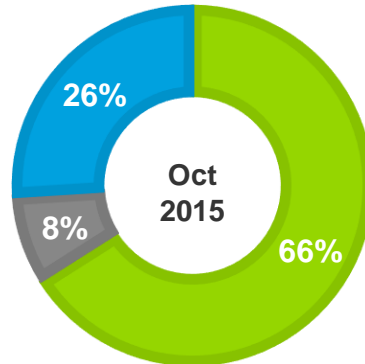
# Long-term Portfolio Evolution

(1) Conservative, US centric, short-term fixed income



(2) Launch of IFFIm extended investment horizon; added inflation hedge assets

(3) Further diversification into less correlated assets



(4) Added multi-exposure in May 2016.



Board meeting  
4-5 December 2019

# Exposure Characteristics

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Characteristics	
Fixed Income (40% - 75%)	Capital preservation, income
Equity (15% - 30%)	Growth, inflation hedge (moderate)
Tactical (0% - 10%)	Less correlated assets lacking the typical characteristics of fixed income or equity
Multi-exposure (15%-30%)	Liquid, flexible, and risk diversified strategies

# Asset Allocation: What To Consider

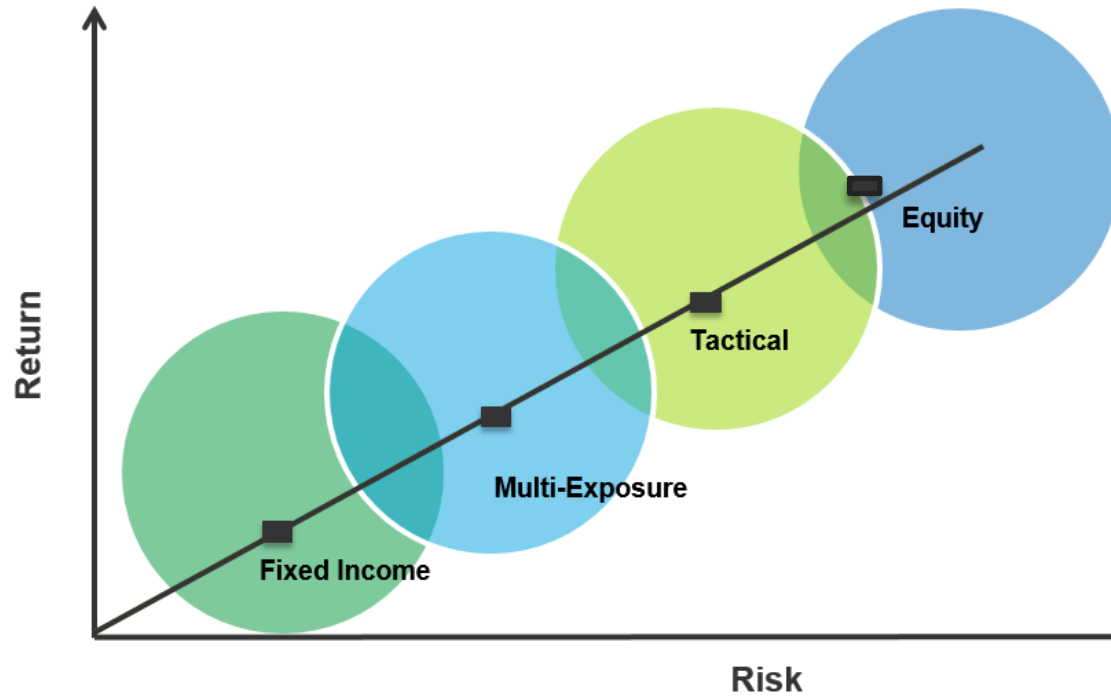
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**In assessing an appropriate mix of investments, the Investments team with the guidance of the Investment Committee and a strategic consultant considers the following:**

1. Appetite for volatility/risk
2. Balancing liquidity of investments
3. Frequency and size of drawdowns (to pay liabilities)
4. Diversification (adding investments that will behave differently under various economic scenarios)



# Risk Versus Return

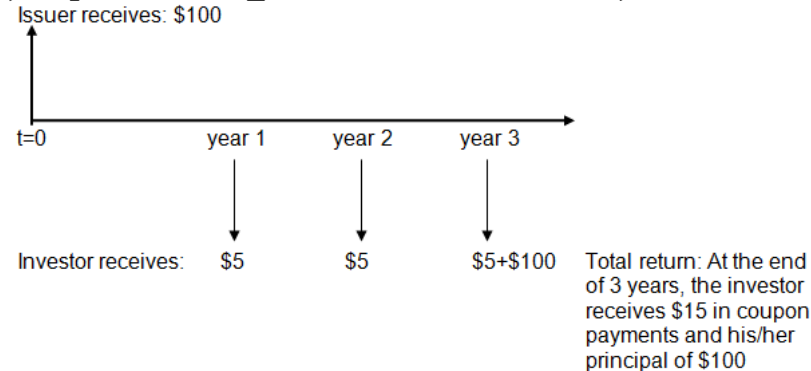


# Fixed Income

## Definition:

A financial obligation from an issuer (e.g. a government) to the investor which typically includes:

1. Periodic interest (coupon) payments
  2. Repayment of principal at maturity
- **Example: US\$ 100, 3-year obligation with a fixed, annual coupon of 5%**



# Equity

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## Definition:

A security that provides the investor with an equity or ownership stake in a company. The investor seeks to earn at least one of the following:

1. Dividends (profit distribution)
2. Capital gain (market value at sale – purchase price)

**Stocks are *not* a short-term investment; in general they are appropriate for investors who have a time horizon greater than 5 years.**

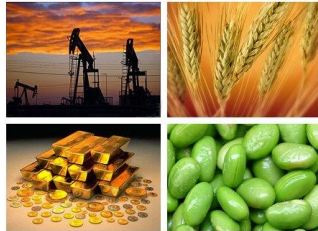
# Tactical

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## Definition:

**Investments that serve as diversifiers within the Gavi long-term portfolio. They do not share the typical characteristics of fixed income and equity. Examples include:**

- Commodities
- Infrastructure
- Real estate investment trusts



# Multi-Exposure

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## Definition:

Investing in a combination of various asset classes through the use of liquid, flexible strategies. It serves the goal of diversifying risk and mitigating volatility.

These strategies may include common asset classes such as:

- Equity
- Fixed Income
- Currencies
- Commodities

# Thank you

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