

Gavi Alliance Investment Committee Meeting

10 February 2017

Teleconference

1. Chair's report

- 1.1 Finding a quorum of members present, the meeting commenced at 14.00 Geneva time on 10 February 2017. Stephen Zinser, Investment Committee Chair, chaired the meeting.
- 1.2 Standing declarations of interest were tabled to the Committee (Doc 1a in the Committee pack).
- 1.3 The Committee reviewed the minutes of its meeting on 1 November 2016 (Doc 1b), which were approved by no-objection on 9 December 2016. It also reviewed its action sheet (01c).
- 1.4 The Committee noted the new version of its forward workplan (Doc 01d).
- 1.5 Finally, the new Board-approved Investment Committee Charter (Doc 01e) was included in the pack for information.

2. Manager presentation – Napier Park

- 2.1 Mr Michael Micko and Ms Nadja Marcoz from Napier Park delivered an informational report on the firm and a credit strategy (Doc 02).
- 2.2 The Committee asked questions including the manager's assessment for 2017 given the ongoing uncertainty due to multiple factors. At the report's conclusion, the Napier Park representatives left the meeting and the Committee discussed the presentation. It was agreed that the Chairman and the Chief Investment Officer would discuss further outside the investment committee meeting.

3. Investment portfolio review

- 3.1 The Chair congratulated the Investments team on the portfolio performance for calendar year 2016. This was endorsed by Dr Seth Berkley, Gavi Alliance CEO, when he joined the meeting.

- 3.2 The Chair also appreciated the investment portfolio summary exhibit in the paper (Doc 03). He noted that the exhibit made it easier to analyse the portfolio when reviewing asset allocation and manager selection decisions.
- 3.3 Jeanne Shen, Chief Investment Officer, reported to the Committee on the investment portfolio, including market and strategy reviews, an overview of the major exposures in the short- and long-term portfolios, contribution to mission, fixed income allocation, key characteristics of each portfolio exposure, asset allocation ranges and performance of the total portfolio as well as individual managers.
- 3.4 Ms Shen provided a mapping of Gavi portfolio returns versus comparative indices. She explained that the portfolio return last year fell between global equity and global fixed income indices, which is appropriate for the risk and volatility characteristics of the portfolio.
- 3.5 Ms Shen noted that the total amount of the long-term portfolio is low compared to amounts reported at prior meetings due to recent manager redemptions. The re-deployment of the redemption proceeds (cash) is a priority. The bulk of the redemption proceeds are expected to be deployed in multi-exposure or multi-asset absolute return oriented strategies.
- 3.6 Ms Shen provided an update on the performance of long-term portfolio managers, noting the performance of various asset classes in the portfolio.
- 3.7 Referring to a manager with sub-par performance, she informed the Committee that it would be watched closely and the Committee would be updated accordingly.
- 3.8 Providing an update to the Committee about asset allocation ranges, Ms Shen pointed out that the Investments team is working to ensure that the asset allocation is within the asset allocation range.
- 3.9 Ms Shen provided an overview of the equity and fixed income allocations. She noted the higher yield and lower duration of the fixed income allocation relative to that of the relevant fixed income benchmark.
- 3.10 Ms Shen provided an overview of recent transactions: 1) Completion in December 2016 of the investment of US\$ 15 million, as a second tranche, in an emerging markets macro fund for a total investment of US\$ 35 million; 2) Full redemption on 31 December 2016 of ~US\$ 89 million from a fund of hedge funds with proceeds available in mid-February; 3) Investment of an additional US\$ 10 million to an existing US mortgage derivatives manager on 1 February 2017, noting the investment of another US\$ 10 million in March 2017.
- 3.11 The Committee **approved** the following recommendations:
- 3.11.1 Add a market neutral, non-credit US relative value strategy, investing US\$ 40 million. The Chair noted that the diversification provided to the portfolio through this strategy was optically quite meaningful.

- 3.11.2 Add US\$ 10 million to an existing US inflation-protected securities strategy as a means to extend a defensive position in the long-term portfolio.
- 3.12 The Committee requested the Secretariat for further information on a European credit strategy manager, in order to consider options.
- 3.13 NEPC shared its views of the market neutral, non-credit US relative value strategy manager, and a European credit strategy manager, and having given both of them a client neutral rating. Ms. Shen confirmed that the Investments team had initiated due diligence on both managers prior to hiring NEPC.
- 3.14 Sebastian Grzejka provided NEPC's perspective on the additional investment in the existing US inflation-protected securities strategy. Stephen Zinser confirmed that the Committee did not need to be involved in the exact timing of the US\$10 million investment with timing to be left to the CIO in consultation with NEPC.
- 3.15 Ms Shen presented an overview of funds exceeding the limit of non-compliance as set out in the Socially Responsible Investment (SRI) policy. She reported to the Committee that the Investments team is actively engaged with these funds in discussing the non-compliance both at quarterly performance reviews and individual conference calls. One fund exceeded the 2% limit for two consecutive semi-annual SRI compliance screenings.
- 3.16 The Committee highlighted the need to ensure effective implementation of the Gavi SRI policy with a clear process for dealing with the outliers. It requested that the Gavi Secretariat, through a formal letter, remind the non-compliant fund manager about Gavi's SRI guidelines including its 2% limit, and highlight that a redemption request is a potential consequence if non-compliance continues to the extent outlined in the presentation.
- 3.17 Finally, Ms Shen updated the Committee that five of Gavi's fund managers received the Pensions & Investment – a money management newspaper – award for the 'Best Places to Work'.

4. NEPC Asset Allocation review

- 4.1 Following an introduction, Mr Grzejka, from NEPC provided a high-level overview of the markets, their recommendations for potential opportunities for the Gavi portfolio and, finally, asset class assumptions (Doc 04).
- 4.2 NEPC informed the Committee that while they do not recommend a change to the asset allocation, they do suggest refinement of the underlying asset class exposures. Mr Grzejka presented current opportunities for the consideration of the Committee.

- 4.3 In response to a question from the Committee about planned changes to the portfolio, Mr Grzejka explained that the asset allocation strategy remains unchanged from its last review in early 2016. It will recommend looking at tactical opportunities as they emerge.
- 4.4 NEPC then detailed the asset allocation of Gavi's long-term portfolio as at 31 December 2016 versus the target guidance, noting that the portfolio is aligned with the allocation ranges in all exposures except for multi-exposure allocation. The resulting portfolio continues to maintain a conservative posture with an appropriate Sharpe ratio, and is aligned with Gavi return, risk and liquidity objectives.
- 4.5 In response to a question by a Committee member about there being any concern for the gap between target allocation and actual one within the multi-exposure, Mr Grzejka informed the Committee that, in consultation with the Investments team, reviews of several multi-exposure strategies were underway. A manager recommendation would likely be provided to the Committee before the next Investment Committee meeting scheduled in May.

After determining there was no further business, the meeting was brought to a close.

Mr Philip Armstrong
Secretary

Attachment A

Participants

Committee Members

- Stephen Zinser, Chair
- William Roedy
- David Sidwell

Regrets

- Yifei Li

Secretariat

- Seth Berkley (joined for agenda item 3)
- Philip Armstrong (joined until agenda item 3)
- Lauren Cui
- Barry Greene
- Mahwesh Bilal Khan
- Alexandra Laheurte Sloyka
- Liron Sharon
- Jeanne Shen
- Rebecca Sorto Orellana

Guests

- Michael Micko, Head of European Credit Strategies (Napier Park)
- Nadja Marcoz, Managing Director, Relationship Manager (Napier Park)
- Christopher Klapinsky, CFA and Partner (NEPC)
- Sebastian Grzejka, Consultant (NEPC)
- Angela Dawson, Analyst (NEPC)