

Gavi Alliance Investment Committee Meeting

3 August 2017

Teleconference

1. Chair's report

- 1.1 Finding a quorum of members present, the meeting commenced at 14.05 Geneva time on 3 August 2017. Stephen Zinser, Investment Committee Chair, chaired the meeting.
- 1.2 Standing declarations of interest were tabled to the Committee (Doc 01a).
- 1.3 The Committee reviewed the minutes of its meeting on 2 May 2017 (Doc 01b), which were approved by no-objection on 12 June 2017.
- 1.4 The Committee noted its Action sheet (Doc 01c) and suggested that any input on the forward work plan (Doc 01d) should be provided through email.

2. Manager presentation

- 2.1 The representatives of trend following investment management firm delivered an informational report on their firm's history, its senior management team, the investment strategy, portfolio implementation and the opportunity set generally for trend following strategies (Doc 02).
- 2.2 The Committee sought information from the representatives, including performance, breadth and depth of various market exposures, the diversification of returns, and how the fund differentiates itself from its competitors. At the presentation's conclusion, the representatives left the meeting and the Committee discussed the presentation.

3. Investment portfolio review

- 3.1 Jeanne Shen, Chief Investment Officer, reported to the Committee on the investment portfolio, including strategy review, 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 (Doc 03).
- 3.2 While reviewing the quarter, Ms Shen noted that the portfolio benefited from strong performance in emerging markets, both in equity and debt markets.

- 3.3 She pointed out that the results of fixed income returns were as expected and the year-to-date (YTD) benchmark performance had been stronger than 2016, due to non-US currency exposure included in that benchmark. Noting the performance of the tactical returns she informed the Committee that while the infrastructure benchmark provided a reasonable return, long commodities performed poorly YTD 2017. Ms Shen also clarified that Gavi's exposure to commodities is market-neutral.
- 3.4 Ms Shen provided a comparison of the Gavi portfolio returns plotted against major indices, and commented that the composition of the Gavi portfolio should allow it to deliver returns as well as risk and volatility characteristics between that of the global equity and global fixed income indices.
- 3.5 In her review of the portfolio allocation, she informed the Committee that due to several large donor contributions, the total portfolio size increased to US\$ 2.3 billion, as opposed to the US\$ 1.9 billion reported to the Committee at its last meeting in May 2017, with a majority of the increase occurring in the short-term portfolio.
- 3.6 The Committee was provided an update on the performance of the long-term portfolio and the individual long-term portfolio managers. Sebastian Grzejka from NEPC provided input pertaining to one of the multi-exposure managers whose performance remained modest since Gavi's investment in 2016, noting that while it required close monitoring, no immediate action was being recommended.
- 3.7 Ms Shen then reviewed the short-term portfolio, commenting on the credit quality and liquidity of the funds and their performance.
- 3.8 Reviewing the contribution of investment activity to the Gavi mission, Ms Shen noted that the net investment income was at US\$ 57.8 million for the first half of 2017, based on the Gavi trial balance.
- 3.9 Ms Shen provided an update on asset allocation within the long-term portfolio noting the portfolio remained below target in its multi-exposure allocation, and higher than target in its fixed income allocation. Ms Shen noted that the Investments team is working on adjusting the asset allocation and sought input of the Committee on whether it may be prudent to reassess if a 27% target allocation for multi-exposure is feasible. The Chair observed that the purpose of the multi-exposure is to provide low correlation of returns to equity and credit markets, and afford Gavi with further diversification and some capital protection as and when volatile markets return.
- 3.10 An update of the December 2016 SRI screening results was provided to the Committee, outlining the six funds that were currently in breach (most modestly) of the 2% limit set out in Gavi's SRI Policy.
- 3.11 The Committee discussed a global equity fund that was in breach of Gavi's SRI Policy for three consecutive screening periods. Ms Shen reaffirmed that the Investments team had several conversations with the manager of the global equity

fund and that manager also received correspondence outlining Gavi's concerns. The Committee decided that Gavi should divest from the fund.

- 3.12 An overview of portfolio investments in Q2 2017 was provided to the Committee:
- 3.12.1 Investment of US\$ 20.0 million completed on 1 June 2017 to a US liquidity relative value strategy;
 - 3.12.2 Investments of US\$ 10.0 million and US\$ 15.0 million completed on 1 June 2017 and 1 July 2017 respectively, in a European credit fund;
 - 3.12.3 Investments of US\$ 20.0 million each completed on 1 July 2017 and 1 August 2017 in a risk parity fund.
- 3.13 The Committee **approved** the following recommendations:
- 3.13.1 Consider one multi-exposure manager subject to additional due diligence, including an on-site visit to meet with senior management team members, with an update on possible investment recommendation to be provided by Q3 2017.
 - 3.13.2 The appointment of an international micro-cap strategy for a US\$ 25 million mandate, with an initial investment in Q4 2017, contingent upon the determination that the size of Gavi's total investment in the fund relative to the size of the fund is not higher than 10-15% (or a percentage deemed appropriate for Gavi's risk-return expectation and the fund's underlying liquidity). Ms Shen confirmed this strategy would be funded from the redemption of a US large cap growth manager, whose termination was discussed at the May meeting.
 - 3.13.3 The change in the timing of investing US\$ 10 million into a multi-exposure manager, which was approved by the Committee in May 2017 on a basis of two equal tranches allocated over two consecutive months. The Investments team subsequently learned that the manager would re-open only for one month in September so the additional investment will be executed in one tranche.
 - 3.13.4 Terminate a global equity fund that was in breach of Gavi's SRI policy for three consecutive screening periods, and seek to replace them with another global equity manager (see 3.11 above).
- 3.14 Ms Shen shared preliminary research on a comparable organisation that uses negative screening as part of their responsible investing platform. The Committee suggested that the Investments team conduct research to analyse whether the screens provided in the Gavi SRI Policy are fit for purpose as they were a product of a review completed a decade ago. The Investments team agreed to report back to the Committee accordingly.

- 3.15 Ms Shen provided an update to the Committee on the custodian RFP, and inquired whether the Committee would like an opportunity to meet with the recommended candidate at the November Investment Committee meeting. The Committee expressed its satisfaction with the oversight being provided by the Investments team to the custodian service and did not deem it necessary for the recommended candidate to present to the Committee.
- 3.16 The Chair noted that the Committee was expecting to be updated by NEPC on its annual asset allocation and portfolio risk review of the Gavi investment portfolio during the second half of 2017. Ms Shen asked for feedback on the information and reporting delivered to the Committee as part of a mid-year assessment. The Committee members confirmed their satisfaction with the information packs provided to them before each meeting, noting that it enabled the Committee to prepare, discuss and decide on matters under its purview, effectively.

4. Investment Committee Charter – Review of editorial updates

- 4.1 Philip Armstrong, Director of Governance and Secretary, explained to the Committee that the updates to the Investment Committee Charter are proposed to ensure consistency of language and structure across all the Gavi Alliance official governance documents.
- 4.2 Mr Armstrong noted that the revised and updated Gavi Alliance Statutes, By-Laws and Charters of the Governance as well as Programme and Policy Committees had recently been approved by the Board in implementing the recommendations of the Board and Committee Self-evaluation, which was undertaken by the Board in 2016.
- 4.3 In addition, the Board had also approved changes to the Gavi Alliance governance structure through its approval of the formation of a Market-Sensitive Decisions Committee and an All Chairs Group, as well as the retirement of the Executive Committee effective 1 September 2017. He informed the Committee that the material change was the removal of references to the Executive Committee from the Investment Committee Charter.
- 4.4 The Committee approved the editorial changes to the Investment Committee Charter. The Secretariat confirmed to the Committee that the revised Charter would be presented to the Governance Committee in October for its consideration and recommendation to the Board for approval in November.

5. Consultant and custodian review

- 5.1 Jeanne Shen, Chief Investment Officer, presented the Committee with an initial summary highlighting the key qualities of the consultant and custodian, to facilitate

the review of the Committee of these relationships, as required by the Gavi Alliance Investment Committee Charter.

- 5.2 Seven critical success factors were used as a basis of analysis to measure the performance of both the vendors. The performance of both the consultant and custodian were satisfactory from the Secretariat's perspective. She noted some areas of improvement which would be communicated to the vendors directly, and the Committee concurred with the ratings determined by the Secretariat.

6. Any other business

- 6.1 The Committee appreciated the investment returns to date, but highlighted the potential for disruption that may be occasioned by current geo-political events. It noted that, in the circumstances, the investment portfolio was adequately diversified and was being managed effectively, given the liquidity constraints, to mitigate the risk posed by any such market correction.

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
- Yifei Li
- William Roedy
- David Sidwell

Secretariat

- Philip Armstrong
- Lauren Cui
- Barry Greene
- Mahwesh Bilal Khan
- Liron Sharon
- Jeanne Shen
- Rebecca Sorto Orellana

Guests

- George W. Wellde Jr.
- Matthias Hagmann
- Kevin Day
- Angela Dawson (NEPC)
- Sebastian Grzejka (NEPC)
- Dulari Pancholi (NEPC)
- Chris Klapinsky (NEPC)