

Gavi Alliance Investment Committee Meeting

8 November 2018

Teleconference

1. Chair's report

- 1.1 Finding a quorum of members present, the meeting commenced at 14.00 Geneva time on 8 November 2018. Stephen Zinser, Investment Committee Chair, chaired the meeting.
- 1.2 Standing declarations of interest were tabled to the Committee (Doc 01a).
- 1.3 The minutes of the 11 September 2018 meeting were tabled to the Committee and duly approved (Doc 01b in the Committee pack).
- 1.4 The Committee noted its action sheet (Doc 01c) and the forward work plan (Doc 01d). In relation to the action sheet, the Chair confirmed that the Secretariat had indeed pursued opportunities with the private investment firm which presented to the Committee in May 2018. It was also noted that the Secretariat will provide updates on the other open actions in this meeting.

Decision One

The Gavi Alliance Investment Committee:

Approved the minutes of its meeting on 11 September 2018.

2. Manager Presentation

- 2.1 The Chair reminded the Committee that an allocation of up to 10% of private debt in the long-term portfolio was recently approved in principle but of which approximately 3% had been committed. He re-iterated that it was crucial to find the right manager for this specialised bucket. In that context, a fund manager from a US based distressed asset specialist presented highlights of their firm and strategy to the Committee as a potential for further investment in this area.
- 2.2 The culture of the company and their approach to distressed asset management was outlined, highlighting the focus on complex, high-conviction assets (Annex A, Doc 02).

Discussion

- When asked about potential reputational risks for Gavi, the firm acknowledged the risks but reassured the Committee that they are cognisant of the reputations of their clients and are already working well with many investors with similar concerns.
- In response to questions from the Committee on the portfolio composition, the firm confirmed that 75% of the assets are typically invested in the US and 25% invested off-shore. It was also noted that assets can be hedged at both the portfolio macro level and, depending on the instruments available, at the micro position level.
- When asked about future opportunities in the market, the firm expressed confidence in increasing opportunities, potentially influenced by an escalation in market leverage.
- The Committee further discussed the proposal from this firm under item 4 below.

3. Asset allocation review and portfolio risk review

- 3.1 Sebastian Grzejka, Senior Consultant, NEPC, presented to the Committee their independent annual assessment of Gavi's long-term investment portfolio (Doc 03), noting that the discussion with the Committee would be used to inform the strategic and tactical priorities for 2019.
- 3.2 In addition to providing the Committee with a market update, Mr Grzejka also presented a risk review of the portfolio. He explained that NEPC had used three methodologies to review the portfolio: Asset allocation-based risk measurement; sensitivity-based risk measurement; and portfolio-based risk measurement.
- 3.3 Mr Grzejka noted that whilst the current allocation is within the risk and return target for the overall portfolio, NEPC believes there is room to modestly enhance risk adjusted exposures. He presented two options for new asset allocation mixes, recommending Mix A as the preferred option.
- 3.4 It was explained that within Mix A the proposal is to slightly increase the fixed income asset class target to balance the yield, safety and diversification of the allocation, and to slightly increase the equity allocation but with focus on hedged, rather than directionally long biased, strategies. A modest reduction in the tactical and multi-exposure allocations was also recommended. It was noted that Mix B was somewhat more aggressive, as it included an increase to 35% of the equity asset class and a decrease in the fixed income asset class target.
- 3.5 NEPC presented the Value at Risk ("VAR") of the current portfolio on a one and two standard deviation basis. This showed there was a 5% chance the portfolio would lose 8.1% on a one standard deviation event and 13.7% on a two standard deviation event. NEPC pointed out that these potential losses were significantly

below a “standard” 60% equity/40% bond portfolio. The Chairman was confident that the current portfolio would withstand those outer bounds, pointing out the performance in January 2017, itself a one standard deviation event.

Decision Two

The Gavi Alliance Investment Committee:

Approved a revised Asset Allocation Statement to extend the upper bound for the Equity range from 25% to 30%, attached as Annex A to Doc 03.

Discussion

- Recognising that some of the recent poor performance in the portfolio was directly or indirectly caused by emerging market exposures, the Chair asked NEPC for their thoughts on whether the current portfolio exposure to Emerging Markets should be retained. NEPC responded that, although volatility might continue in the short term (potentially driven by China which is a significant portion of emerging markets), their view is that the exposure should be kept for the longer term benefits, noting that emerging markets representation in the Gavi portfolio mirrors its representation in global asset portfolio mixes.
- Following a discussion on the increasing equity allocation, the Secretariat confirmed that only non-directional, hedged strategies are being considered for the equity asset class and this is not a move towards more directional strategies.
- The Committee proposed that the Chair’s report to the Gavi Board meeting in November contain reference to the expected downside risks of the portfolio, so that Board members can be informed accordingly.

4. Investment portfolio review

- 4.1 Jeanne Shen, Chief Investment Officer, updated the Committee on the performance of the investment portfolio, manager activities, and related transactions (Doc 04).
- 4.2 With regards to the long-term portfolio, Ms Shen explained that despite a difficult period under review, the portfolio delivered a return of +1.2% in the third quarter versus the reference index return of +0.9%. She noted that, despite a volatile market environment, all major exposures delivered positive performance this quarter on an absolute basis, although the equity allocation underperformed relative to its benchmark, mainly as a result of volatility in emerging markets.
- 4.3 Regarding the short-term portfolio, Ms Shen noted that overall it is performing as expected, producing gains of US\$ 13.7 million so far in 2018. She however highlighted to the Committee a short-term ultra-low duration mandate which had

been created with Gavi as the seed investor, but, having not been able to attract additional assets, the Investments team are proposing to liquidate this fund.

- 4.4 Ms Shen reviewed the performance of the fund managers in the long-term portfolio, noting specifically the managers with the best year-to-date performance, and also informing the Committee about those whose performance was lower than expected and whom the Investments team would be monitoring closely going forward.
- 4.5 Ms Shen particularly noted the poor performance in 2018 of a directional long-only global fixed income fund manager. She further highlighted one emerging markets equity fund and one micro-cap equity manager. Concerns were also raised over the investment in a hedged US mortgage derivative fund around the lack of investment in technology and staff departures.
- 4.6 Ms Shen asked the Committee for guidance on the distressed asset manager that presented in item 2.
- 4.7 It was explained that the Investments team had recently conducted a procurement process for a vendor to screen against the Socially Responsible Investment (SRI) Policy, given that the current provider had now been retained for the limit of five years and was subject to review. Ms Shen explained that, following the review of three companies, the proposal was to retain the current vendor.
- 4.8 Ms Shen revealed that the Gavi leadership team have approved the signatory process for sign-on investor letters circulated by Ceres, a sustainability advocacy group. She noted that this is good way to understand the reputational risk of companies in which Gavi's assets are invested, and that several financial institutions are beginning to be more aware of climate change issues.
- 4.9 Ms Shen outlined to the Committee the 2018 due diligence schedule and noted that all meetings will be completed by the end of December.
- 4.10 The Committee **approved** the following recommendations:
- 4.10.1 To terminate the short-term ultra-low duration bond manager due to its breaches of the SRI threshold (4.3 above).

Discussion

- The Committee members were interested in understanding more about the distressed assets fund manager who presented in item 2, although they advised the Secretariat to be aware of the potential reputational risks. It was agreed that the Secretariat should conduct further discussions with this investment manager.
- Following discussion with the Secretariat, and being reassured about the reasonableness of the fees, the Committee were supportive of the continuation of the current SRI screening vendor.

5. Annual risk rating

- 5.1 Jeanne Shen, Chief Investment Officer, presented the item, explaining that the Investments team annually undertakes a process of assigning risk ratings to all investment managers based on a range of monitoring and due diligence activities performed throughout the year.
- 5.2 Ms Shen explained that the 12 characteristics used for the previous year's risk rating exercise were retained as well as adding a 13th criterion around SRI screening, following a recommendation from the Investment Committee in their meeting on 11 September 2018.
- 5.3 Ms Shen outlined the 14 managers who were rated as 'low risk', the seven managers rated as 'moderate risk' and the two managers which were awarded a 'high risk' rating. Of the two 'high risk' managers, Ms Shen explained that one was recently terminated and the other is a short-duration manager and the rating was driven by the fact that Gavi is a significant portion of this fund, as well as the fund's breaching the SRI threshold for three consecutive periods.
- 5.4 The Committee **approved** the following recommendation:
- 5.4.1 To terminate the high-risk short duration manager described in 5.3 above.

Discussion

- In response to questions from the Chair on the 'high risk' short-duration manager, the Secretariat confirmed that whilst their portfolio strategy is not high risk, Gavi comprises a significant portion of this fund and this manager breached the 2% threshold in the SRI criterion several times.

6. Consultant and custodian performance review

- 6.1 Jeanne Shen, Chief Investment Officer, presented the results of the annual custodian and consultant review process. Regarding the custodian, she noted that they are very responsive, proactive and conscientious about deadlines and the Investments team have encountered no issues. Therefore, the Investments team is proposing to retain the current custodian.
- 6.2 Ms Shen then outlined the proposal to retain the consultant, which the Investments team described as competent, knowledgeable and with a quick turnaround, although some routines could be improved upon.

Discussion

- The Committee supported the proposals to retain both the current custodian and consultant, recognising feedback from the Investments team on positive relationships and performance.

7. Any other business

- 7.1 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
- Margaret Hamburg (items 1-4)
- William Roedy (items 1-3)
- David Sidwell

Regrets

- Matthias Reinicke

Secretariat

- Philip Armstrong (in Geneva)
- Seth Berkley (in Geneva) (items 2-6)
- Caroline Bradley (in Geneva)
- Jeanne Shen (in Washington DC)
- Liron Sharon (in Washington DC)
- Lauren Cui (in Washington DC)
- Carla Minami (in Washington DC)

Guests

- Sebastian Grzejka (NEPC) (items 1-5)
- Courtney O'Leary (NEPC) (items 1-5)
- George W. Wellde Jr. (items 1-5)