

Gavi Alliance Investment Committee Meeting

9 February 2018

Teleconference

1. Chair's report

- 1.1 Finding a quorum of members present, the meeting commenced at 14.00 Geneva time on 9 February 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 9 November 2017 meeting were tabled to the Committee for information (Doc 01b in the Committee pack). The minutes had been circulated and approved by no-objection on 19 December 2017.
- 1.4 The Committee noted its Action sheet (Doc 01c) and the forward work plan (Doc 01d).

2. Asset allocation review and outlook

- 2.1 Sebastian Grzejka, NEPC, presented to the Committee its independent annual assessment of Gavi's long-term investments portfolio (Doc 02), including a review of Gavi's asset allocation in the context of the request from the Board to the Investment Committee during its November 2017 meeting to consider whether or not there is a need for Gavi to maintain its current levels of liquidity in virtually the entirety of its long term portfolio.
- 2.2 Mr Grzejka highlighted that the relative value of developed market equities outside the US has improved. NEPC recommends reducing exposure to assets that have outperformed expectations over a prolonged period such as US equity and high yield debt, and also to increase exposure to strategies that are likely to outperform in periods of market volatility, such as TIPs (Treasury Inflation Protected).
- 2.3 Mr Grzejka indicated that in their view there are currently more opportunities in the European, Asian and emerging equity markets relative to the US. Referring to the market volatility during the days immediately preceding this meeting, he stated that in their view the market sell-off is principally due to concerns for increased inflation, but may also provide a buying opportunity from a rebound perspective. He shared the view that the current volatility is not expected to be part of a massive pull back but that it will be important to have exposures that manage volatility in the long term, particularly at this point in the market and economic cycles.

- 2.4 In terms of current opportunities, Mr Grzeja indicated that the existing portfolio allocation (including pending approved changes) is still appropriate.
- 2.5 Mr Grzejka presented recommendations and considerations relating to a review of Gavi's long term portfolio asset allocation. He highlighted that the long term fund takes a conservative approach to investing and that the potential addition of private debt could be a replacement of other fixed income strategies. It was indicated that the addition of private debt up to 10% of the total long term portfolio would not meaningfully impact the liquidity profile of the portfolio.
- 2.6 He presented an overview of expected returns of the portfolio under different market conditions if private debt is added to the portfolio at different weights of the total portfolio.

Discussion

- Committee members noted that investment in private debt should be considered within a range due to the nature of these investments, and a range of up to 10% could be included in the portfolio with no pressure to get there, and subject to finding the right manager. It was noted by a Committee member that this type of investment trades less liquidity for lower volatility. In addition unlike other asset classes where asset allocation almost always trumps manager selection, this is an asset class where specific manager selection from the multitude of private debt options will ultimately drive the return of this sleeve of the portfolio.
- Committee members noted that the Asset Allocation Statement and Investment Policy will be reviewed to see if they will need to be updated accordingly in due course. In line with the Investment Committee Charter, any changes to the Investment Policy would be reported to the Board prior to implementation.

3. Investment portfolio review

- 3.1 Jeanne Shen, Chief Investment Officer, updated the Committee on the 4Q 2017 performance of the investment portfolio, manager activities, and related transactions (Doc 03).
- 3.2 She referred to the flattening of the yield curve, indicating that it will be necessary to see how this plays out going forward, also in the context of the current market volatility.
- 3.3 Ms Shen provided an overview of global currencies in terms of US\$, the latter having weakened significantly during 2017 against major currencies, noting that the Gavi portfolio does have some non-US assets in the equity portfolios but has limited non-hedged exposure in the fixed income bucket.
- 3.4 In connection with the market performance Ms Shen highlighted that 2017 had been an outstanding year for equities across the board, particularly in emerging

markets, and that Gavi had benefited from this. She also noted that fixed income returns have also been solid and that generic returns on commodities were rather muted.

- 3.5 Ms Shen presented information on Gavi's long term portfolio returns highlighting the record year end net investment income of US\$ 111 million. She provided an overview of the major exposures in the short-term and long-term portfolios, contribution to mission, key characteristics of each portfolio exposure, asset allocation ranges and performance of the total portfolio, as well as individual managers, noting that there were no recommendations from the Investments team for actions in this respect at this time.
- 3.6 Ms Shen discussed the Q4 portfolio re-allocation transactions, which had been quite a busy period. She also referred to upcoming proposals and requested guidance from the Investment Committee in relation to the proposed hiring of a new global asset class multi-strategy volatility manager.
- 3.7 She also requested guidance in relation to a proposal to modestly rebalance the portfolio by reducing US equity exposure and increasing investments in TIPs.
- 3.8 Ms Shen recalled the discussion the Committee had at its meeting in November 2017 whereby they requested an analysis relating to an update to the application of the Social Responsibility Investment (SRI) policy and how it could be implemented effectively to ensure that Gavi continues to invest in a socially responsible manner. She presented an overview of different SRI strategies, indicating that Gavi is positioned in the 'negative screening' category, with several existing managers actively using ESG integration for positive screening where they can influence change.
- 3.9 Ms Shen outlined a proposed framework for evaluating qualitative screens, which deepens the analysis carried out on specific holdings highlighted by Gavi's SRI consultant, but which would not require a change to the existing SRI policy.
- 3.10 Committee members reflected on the fact that climate change is being addressed increasingly through investment portfolios.
- 3.11 The Committee **approved** the following recommendations:
 - 3.11.1 To invest US\$ 45 million in a global asset class multi-strategy volatility manager as a new allocation to the Multi-Exposure sector, subject to receiving the February (to date) performance and the portfolio constraints.
 - 3.11.2 To rebalance the long-term portfolio by reducing exposure to US equities by up to US\$ 20 million, with the exact amount and timing to be determined by the Chief Investment Officer in consultation with the Investment Committee Chair. The first step toward re-balancing would include a US\$ 10 million allocation to an existing US inflation-linked bond strategy.

3.11.3 That Gavi join the *Ceres Investor Network* with the aim of gaining knowledge and advocating actions to mitigate the effects of climate change and related sustainability issues associated with Gavi's SRI policy.

Discussion

- Committee members noted that the request to reduce US equity exposure was not linked to recent market volatility and is indeed something which has been considered for some time. The Chair also indicated that further reductions in US equity exposure may be necessary and that the Committee should offer a degree of flexibility to the CIO to implement this within the agreed ranges.
- In relation to SRI, Committee members noted that managers are increasingly considering environmental social and governance issues. It was confirmed that the screening using the proposed framework would be done by the Investments team, based on the flagged holdings identified by the SRI consultant during their portfolio review. The Investments team should report its findings to the Committee for further discussion and guidance.
- It was noted that each organisation has different SRI restrictions and limitations and there is no widely used standard.
- It was noted that unless decided otherwise Gavi will continue to apply the current SRI screening method.

4. Any other business

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

Committee Member-elect

- Margaret Hamburg

Regrets

- Matthias Reinicke

Secretariat

- Philip Armstrong
- Joanne Goetz
- Barry Greene
- Liron Sharon
- Jeanne Shen
- Janamarie Perroud
- Kimberley Villa

Guests

- Angela Dawson (NEPC)
- Sebastian Grzejka (NEPC)
- Chris Klapinsky (NEPC)