

Gavi Alliance Investment Committee Meeting

15 May 2018

Teleconference

1. Chair's report

- 1.1 Finding a quorum of members present, the meeting commenced at 14.10 Geneva time on 15 May 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 February 2018 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 10 April 2018.
- 1.4 The Committee noted its Action sheet (Doc 01c) and the forward work plan (Doc 01d).

2. Investment policy and asset allocation statement review

- 2.1 Jeanne Shen, Chief Investment Officer, outlined proposed updates to both the Investment Policy and Asset Allocation Statement to the Committee (Doc 2). She noted that this had arisen from a discussion at the previous Investment Committee meeting regarding a proposal to invest in private debt.
- 2.2 She noted it was determined that the existing Investment Policy permitted investments in private debt mandates but the opportunity was used to make some minor amendments to the policy in consultation with NEPC. Ms Shen reported that these amendments would not result in any changes to the investment objectives, management structure, or portfolio composition. In addition, the long-term portfolio performance objectives would not change. She stated that no changes were required with respect to overall portfolio liquidity, but some minor clarifications of wording were undertaken.
- 2.3 Referring to the Asset Allocation Statement, Ms Shen outlined to the Committee the proposed insertion of a procedure to account for breaches in single manager concentration limits amongst other minor wording amendments.

Decision One

The Gavi Alliance Investment Committee:

- a) **Approved** the recommended changes to the Investment Policy as set out in Annex A and the revised and updated Investment Policy as set out in Annex B of Doc 02; which shall come into full force and effect on 7 June 2018 when presented to the Gavi Alliance Board, subject to no objections being raised by the Board.
- b) **Approved** the recommended changes to the Asset Allocation Statement as set out in Annex C and the revised and updated Asset Allocation Statement as set out in Annex D of Doc 02.

3. Manager presentation

- 3.1 A global alternative investment firm focussed on private credit presented to the Committee (Doc 03, Annex A) in connection with the consideration of an extension of the liquidity horizon of a modest portion of the long-term portfolio that could include private debt assets with a three- to five-year lockup.
- 3.2 It was explained that their main differentiator compared with other firms is how deals are sourced; this firm partners with major global banks rather than originating directly. They believe that this methodology enables higher returns with less risk, while enabling the banks to reduce their regulatory capital burden and improve their returns.
- 3.3 An overview of the firm's investment strategy and funds was provided, noting its cash-flow driven strategy with a modest risk appetite. It was noted that the majority of its portfolio was BB quality or better. It was highlighted that working with both US and European banks creates a globally diverse portfolio which helps to manage risk.
- 3.4 The benefits of utilising the banks' existing infrastructure were also highlighted, which can result in access to fund opportunities before the rest of the market.

Discussion

- The Chair asked that it be noted that he had worked with the CEO of this firm in a previous role but as colleagues and with no direct reporting relationship.
- The firm confirmed that they do their own due diligence not only on the deals, but also on the banks, including underwriting.
- A Committee member asked whether the firm can put an asset back to the banks if it under-performs. The firm responded that if there is an existing loan then they generally cannot put it back, unless it breaches any representations in the contract, which may include specific performance information.

- A Committee member inquired about the number of investor relations professionals at the firm. The firm noted they generally have larger investors which usually results in a long and extensive due diligence process and who require more attention following the execution of an investment.
- In response to a question from a member on the lock-up period, the firm stated that the lock-up is two years, after which there is the option of an annual roll-over, after which the funds would be returned as the different loans mature. They clarified that most maturities are between two and four years so the majority of the funds could be returned 1.5 years following the notice of termination.

4. Investment portfolio review

- 4.1 Jeanne Shen, Chief Investment Officer, updated the Committee on the Q1 2018 performance of the investment portfolio, manager activities and associated transactions (Doc 4).
- 4.2 In the market review, Ms Shen noted that it had been a challenging first quarter compared with 2017. She stated that global growth continued in 2018 albeit with significantly higher volatility, particularly in February.
- 4.3 Ms Shen outlined that from a total Gavi portfolio allocation of US \$1.9 billion, the long-term portfolio delivered a net return of -0.5% (and net investment loss for the total portfolio of US\$ 1 million) in Q1 2018. This was driven by each of the Fixed Income, Equity, Tactical Multi-Exposure categories reporting modest losses. Relative performance against benchmarks was impacted by weakness in the US Dollar over this period (Gavi does not generally invest in non-USD fixed income exposures).
- 4.4 On the short term portfolio, Ms Shen outlined a modestly negative return of 0.03%.
- 4.5 Ms Shen then summarised recent transactions and outlined the performance of the various long-term portfolio managers for all asset classes, highlighting those which the Investment team has some concerns, as well as presenting potential future managers for consideration.
- 4.6 The Committee then approved the following recommendations:
- 4.6.1 To hire a short duration, high yield fund manager for a US\$ 40 million mandate in Q2 2018; and
- 4.6.2 To permit a transition to a passive US equity exposure using FTSE4Good US Select Index as a benchmark through a redemption in the existing current passive US equity exposure less US\$ 10 million. The US\$ 10 million of redemption proceeds will be used for future investments.

- 4.7 Ms Shen then shared with the Committee results from the semi-annual screening for Socially Responsible Investment. She noted the updated framework for evaluating qualitative screens of human rights with classification to level 1 (indirect involvement) and level 2 (direct impact and involvement with human rights violations). Ms Shen noted that that two flagged holdings were categorized by the Investments team as Level 1, and the remaining classified as Level 2.
- 4.8 Ms Shen finally noted that with the appointment of a new external auditor starting the 2018 annual audit, the Investments team should expect changes in questions and a more detailed scrutiny, at least in the first couple of years.
- 4.9 Ms Shen detailed the 2018 due diligence visits, and noted that the frequency of visits is based on the annual risk rating performed by the Investments team.

Discussion

- The Chair noted that several of the underperforming managers were caught in the February volatility but there were a variety of issues at work. The Committee members raised concerns about the prospective performance of a global macro relative value manager. In addition, they were underwhelmed by the recent performance of a market neutral US equity manager. It was agreed that these managers should be considered for removal.
- The Investment team noted that one of their longest serving and largest fixed income managers had previously performed exceptionally well for Gavi but suffered poor performance to date in 2018. The Committee members recommended having further discussions with this manager and potentially moving some funds away to manage the risk.
- The Chair also raised that one of the global infrastructure funds currently labelled as a tactical allocation seems less tactical currently. He supported the Investment team suggestion in either moving the asset into the equity class or withdrawing from the fund.
- The Committee agreed that the Investment team should continue the review of the private debt investment firm which presented in item 3, noting the benefits of their close relationships with the large banks and interest to pursue the strategy.
- The Committee advised the Secretariat that they did not feel any action is required from the results of the Socially Responsible Investment assessment.

5. Any other business

- 5.1 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
- Yifei Li*
- William Roedy*
- Matthias Reinicke*
- David Sidwell*

Regrets

- Margaret Hamburg

Secretariat

- Philip Armstrong* (in Geneva)
- Caroline Bradley* (in Geneva)
- Lauren Cui* (in Washington DC)
- Liron Sharon* (in Washington DC)
- Jeanne Shen* (in Washington DC)
- Janamarie Perroud* (in Washington DC)
- Kimberley Villa* (in Washington DC)

Guests

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

(* denotes participation via telephone)