

Gavi Alliance Investment Committee Meeting

11 September 2018

Teleconference

1. Chair's report

- 1.1 Finding a quorum of members present, the meeting commenced at 14.07 Geneva time on 11 September 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 15 May 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 4 July 2018.
- 1.4 The Committee noted its Action sheet (Doc 01c) and the forward work plan (Doc 01d).

2. Investment portfolio review

- 2.1 Jeanne Shen, Chief Investment Officer, updated the Committee on the performance of the investment portfolio through July 2018, as well as manager activities and associated transactions since the previous Investment Committee meeting (Doc 2).
- 2.2 In the market review, Ms Shen noted continuing volatility in the second quarter. She highlighted the strengthening of the US dollar, Federal Reserve rate hikes and the expectations for the European Central Bank to reduce security purchases, and the impact these policies have had on financial markets.
- 2.3 It was noted that a modestly positive overall investment gain of US\$ 5.2 million thus far in 2018 was due to higher returns from interest on cash rather than the returns from the long-term portfolio. She noted that in terms of relative performance whilst the YTD return on the Gavi portfolio is below the reference index, recent changes are expected to yield relative improvement by the end of 2018. It was noted that all longer term measures of performance relative to the reference index continue to show solid results.
- 2.4 Referring to the long-term portfolio, Ms Shen stated that April-June performance was negative whilst July performance was solid. She explained that equities (particularly non-US assets) and multi-exposure were the main detractors over this period.

- 2.5 Ms Shen then summarised recent transactions and outlined the performance of the long-term portfolio managers for all asset classes, highlighting those which the Investments team will keep on watch, and several that are being considered for potential appointment.
- 2.6 In relation to Socially Responsible Investment (SRI), Ms Shen explained that a procurement process was now under way to appoint a vendor who could assist with the SRI screening of the investment portfolio. She stated that four candidates (including current service provider, Sustanalytics) had been engaged so far and was hopeful that a vendor would be selected by the next Investment Committee meeting in November 2018.
- 2.7 Ms Shen then described to the Committee the Climate Action 100+ initiative led by globally recognised sustainability organisation, Ceres. It was explained that there is an opportunity to sign on investor letters for engaging with companies or advocating actions for climate change. In addition, while Gavi has an environmental sustainability statement it does not have a climate change policy. Ms Shen asked the Committee for guidance on this matter.
- 2.8 Referring to the audit of Gavi's 2017 annual financial statements, it was explained that the main enquiries by the auditors to the Investments team were in relation to under-performing managers in the first quarter of 2018; no substantive issues were identified. The Secretariat has not yet received any requests from the new auditor, Deloitte.
- 2.9 In relation to the annual risk rating review of managers, Ms Shen outlined the 12 risk rating characteristics and asked the Committee members whether they were comfortable with those proposed. She noted that these characteristics help to steer the appropriate level of monitoring of the managers.
- 2.10 In relation to the compliance review, Ms Shen explained that the second quarter compliance review had been conducted with no serious issues identified. She explained that the compliance questionnaire will shortly be sent to money market managers with additional due diligence checks to be completed by the Treasury team.
- 2.11 Finally, Ms Shen stated that due diligence meetings were under way and should be completed by the end of the year.

Discussion

- In response to a query from a Committee member on the CIO's relative optimism with respect to performance by the end of 2018, the Secretariat explained that they are hopeful that recent changes in fund managers and fund allocations will yield better results, particularly in challenging market conditions, but this cannot be guaranteed given current global market volatility.

- In relation to fund managers, the Chair raised the need to keep the equities and multi-exposure managers under particular scrutiny, to which the Secretariat agreed.
- In response to a question regarding cash allocation within the portfolio, the Secretariat explained that much of the cash is in the form of deposits as well as some money market funds and assured the Committee that these are high quality funds.
- In relation to the investor letter with Climate Action 100+, members opined that whilst Gavi has been traditionally more strategically aligned with health-related issues, signing engagement letters on other important subjects such as climate change could be a positive move. The Committee proposed the creation of a policy regarding the signing of the Climate Action 100+ engagement letters, containing guidance on Gavi's values in relation to climate change and a clear process for sign-off that was consistent with Gavi's sign-off process for related issues.
- It was also agreed that the development of a Gavi climate change policy would be a beneficial next step for the organisation. The Secretariat agreed to look into a policy and acknowledged the importance of coordinating with the Executive Office.
- The Secretariat also proposed to engage with the fund managers on the climate change issue, even though it is not a current element in the SRI screening process.
- In relation to the 12 risk rating characteristics, one Committee member proposed that adherence to the SRI Policy could be included as an additional characteristic. The Secretariat agreed to look into this but noted that some managers are not screened for SRI since all or most of their holdings either cannot be screened or are not relevant to be screened. It was confirmed that the final risk rating characteristics would be presented at the November Investment Committee meeting.
- In response to a question from the Chair about cyber security controls, the Secretariat responded that the internal controls report provided by the managers include reviews of their information technology controls and processes.
- The Secretariat also confirmed that they initiated an allocation to the private debt fund discussed and approved at the May 2018 Investment Committee meeting.

3. Preliminary review of asset allocation

- 3.1 Sebastian Grzejka, Senior Consultant, NEPC presented to the Committee NEPC's preliminary review of Gavi's asset allocations (Doc 03).
- 3.2 As part of the annual market themes, Mr Grzejka highlighted the extended US economic cycle and proposed that Gavi move some equity assets out of the US

market and consider the non-US developed markets and emerging markets for 2019, with an emphasis on hedged strategies.

- 3.3 With regard to targets vs allocation, Mr Grzejka noted that as of July 2018 the portfolio was close to target on all categories except equities, which was at the high end of the range. He proposed that, although Gavi already has wide bounds, the upper bound on equities could be increased from 25% to 30%.
- 3.4 Mr Grzejka reviewed with the Committee two options for amended allocation mixes. NEPC proposed that there may be an opportunity to increase the equity allocation, but with a focus on hedged or long/short type strategies. Within fixed income, NEPC recommended adding safe haven assets such as intermediate term US treasuries to reduce exposure to higher risk fixed income assets.
- 3.5 Mr Grzejka also recommended reducing the targets for tactical and multi-exposure assets given NEPC's comfort with the existing managers and limited additional opportunities.
- 3.6 Mr Grzejka asked the Committee for guidance on the proposals.

Discussion

- In response to concerns from a member on the apparent complexity of the funds, NEPC reassured the Committee that they do not believe the proposed allocation is too complicated but is merely presented in greater detail for clarity.
- Regarding the proposed asset allocations, it was agreed that more detail for both allocation options would be presented in the November 2018 Investment Committee meeting. The members raised no concerns about increasing the equity allocation provided the focus was on less directional long/short strategies.
- The Chair agreed with the proposal to look into more treasury-backed assets. He also recommended caution in selling off material amounts of US-based assets prematurely. He pointed out that should the US markets take a tumble, it is by no means clear that non-US markets, particularly Emerging Markets, should retain relative safe haven status simply because they are seemingly better value today compared to the US markets.

4. Any other business

- 4.1 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
- William Roedy (agenda item 2 onwards)
- David Sidwell

Regrets

- Matthias Reinicke

Secretariat

- Philip Armstrong (in Geneva)
- Caroline Bradley (in Geneva)
- Lauren Cui (in Washington DC)
- Barry Greene (in Geneva, agenda item 2 onwards)
- Liron Sharon (in Washington DC)
- Jeanne Shen (in Geneva)
- Rebecca Sorto-Orellana (in Washington DC)

Guests

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