

## Gavi Alliance Investment Committee Meeting

8 February 2019

Teleconference

### 1. Chair's report

- 1.1 Finding a quorum of members present, the meeting commenced at 14.00 Geneva time on 8 February 2019. Stephen Zinser, Investment Committee Chair, chaired the meeting.
- 1.2 Standing declarations of interest were tabled to the Committee (Doc 01a in the Committee pack).
- 1.3 The minutes of the 8 November 2018 meeting were tabled to the Committee and duly approved (Doc 01b).
- 1.4 The Committee noted its action sheet (Doc 01c) and the forward work plan (Doc 01d).

-----

### 2. Investment Portfolio Review (including SRI)

- 2.1 Jeanne Shen, Chief Investment Officer, updated the Committee on the fourth quarter (4Q) 2018 performance of the investment portfolio, manager activities and related transactions (Doc 02).
- 2.2 Ms Shen outlined the volatile financial markets during 4Q, pointing to geopolitical uncertainty, Sino-US trade tensions, concern about US rates rising too quickly and falling oil prices.
- 2.3 In relation to the long-term portfolio, Ms Shen noted the negative return in 4Q. She highlighted that the greatest negative impact on an absolute basis was seen in Equities although the Multi-Exposure asset class was a primary detractor on a relative basis. It was further noted that several Fixed Income funds also delivered returns which were negative for Q4 while the index benchmark was positive.
- 2.4 Ms Shen explained that cash was the only asset class with an overall positive return in 2018 and that Gavi had US\$ 175 million of cash not yet invested at the end of 2018. It was however highlighted that, despite a challenging past year for the long-term portfolio, the individual asset classes still beat their benchmarks over longer periods.
- 2.5 With regards to manager performance, Ms Shen highlighted a disappointing performance in 2018 for a Directional Long-Only Fixed Income manager for which Gavi had already reduced the portfolio. In the Multi-Exposure asset class,

concerns were also highlighted around a Global Risk Parity fund manager who, although not officially on watch, reported a decline in managed assets at the end of 2018, leading to staff reductions.

- 2.6 Ms Shen stated that the total Gavi portfolio had generated an estimated net investment income of US\$ 548.6 million since inception, with an estimated loss of US\$ 2.4 million in 2018. She noted that as a result of rising rates the low duration and cash portfolios provided income during 2018, which helped to offset losses stemming from the negative performance of the long-term portfolio.
- 2.7 The Committee approved the following recommendations:
- 2.7.1 To terminate a Credit-Linked Hedge Fund, US Mortgage Derivative manager due to indifferent performance and lack of investment in technology;
- 2.7.2 To terminate a US Relative Value Hedge Fund manager due to indifferent performance and a portfolio manager's decision to reduce their hours at the main office.
- 2.8 Ms Shen outlined the managers under consideration, which were mainly in the Fixed Income and Equity brackets.
- 2.9 With regards to Socially Responsible Investment (SRI), Ms Shen reminded the Committee that two managers had exceeded the acceptable SRI threshold of 2%. She stated that the Secretariat are in the middle of transferring one of these funds to a Socially Responsible Short Bond Fund with the same manager and no action is proposed at this time for the second manager since the breach has not been consistent and also not related to tobacco.
- 2.10 Ms Shen outlined the evaluation of companies in managers' portfolios that were flagged due to human rights violations. Energy companies appear at a disproportionate rate relative to other sectors.

### *Discussion*

- The Chair opined that the performance of both the Tactical and Multi-Exposure asset classes were acceptable, considering the volatility of the market, and were meaningfully better than the various hedge fund indices. He further opined that an under-performance of 9% against the Multi-Exposure benchmark (Short term UST plus 5%) is not a fair reflection of how well those managers did in 2018 and the Secretariat agreed to look into potentially adjusting this benchmark for the next meeting of the Committee, focusing instead on one or more hedge fund indices.
- The Committee discussed the possibility of moving away from inflation protected and short-term treasury funds towards intermediate or long-term funds. NEPC noted that they will keep watch on unemployment rates and Federal Reserve rates as indicators of recession, and if these look to be moving then they will act quickly to discuss with the Committee the possibility of adding longer duration treasury assets to the portfolio.

- In response to a question from the Chair on potential volatility in the non-US and emerging markets affecting the Equity allocations, NEPC recognised that whilst they are very confident in the managers it would be prudent to revisit this issue further into 2019. It was also indicated that there is a search for a long/short equity manager which would help to reduce volatility.
- The Committee opined on the possibility of investing the un-allocated US\$ 175 million currently in short duration funds into intermediate duration Fixed Income funds, and the Secretariat agreed to circulate a proposal on the yield gap between intermediate and short duration treasury allocations.

-----

### **3. Capital Markets Assumptions Update and Private Markets Review**

- 3.1 Sebastian Grzejka, Senior Consultant, NEPC presented to the Committee, noting the recent volatility in the markets and that NEPC is cautioning investors that markets are entering into a late cycle phase. He stated that whilst NEPC believes Gavi is positioned well, if there are increasing indications of a recession they will act promptly in order to explore options for changing the asset allocation.
- 3.2 Mr Grzejka outlined the four major themes which NEPC believes are driving the market. Mr Grzejka then outlined the potential opportunities in the market. He noted that Gavi had already moved towards increasing safe-haven Fixed Income exposure and reducing lower quality credit exposure. It was noted that no changes were being recommended.
- 3.3 To conclude, Mr Grzejka provided an overview of private markets and outlined some potential investment options.

#### *Discussion*

- The Committee discussed the possibility of investing in non-liquid private debt, noting that recent investment into a private debt fund was meaningfully below the 10% cap. Recognising the upcoming Gavi 5.0 strategy and replenishment, the Committee agreed that a 10-year lock-up would be too long but they would be open to discussing options of maturities between seven to eight years if the right opportunity arose.
- The Investment Committee discussed Master Limited Partnerships (MLPs) as an opportunity. When asked about the risk in relation to human rights violations (considering the relatively high number of energy companies showing violations here), NEPC explained that the parent companies (all US companies) would need to be assessed for SRI risks.
- The Secretariat highlighted that they were looking into the potential for tail-risk hedging and they would report back to the Committee at the next meeting.

-----

**4. Any other business**

- 4.1 There being no further business, the meeting was brought to a close.

-----

---

Mr Philip Armstrong  
Secretary

## Attachment A

### Participants

#### Committee Members

- Stephen Zinser, Chair
- William Roedy
- David Sidwell
- Matthias Reinicke

#### Regrets

- Margaret Hamburg

#### Secretariat

- Philip Armstrong (in Geneva)
- Caroline Bradley (in Geneva)
- Barry Greene (in Geneva)
- Jeanne Shen (in Washington DC)
- Liron Sharon (in Washington DC)
- Lauren Cui (in Washington DC)
- Sandra Gonzalez Nderstigt (in Washington DC)

#### Guests

- Sebastian Grzejka (NEPC)
- Courtney O'Leary (NEPC)
- Dulari Pancholi (NEPC)