

Gavi Alliance Investment Committee Meeting

7 May 2019

Teleconference

1. Chair's report

- 1.1 Finding a quorum of members present, the meeting commenced at 14.00 Geneva time on 7 May 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 February 2019 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).
- 1.5 The Chair welcomed Afsaneh Beschloss as an observer, who had recently agreed to join the Board of the Gavi Alliance from 1 January 2020 and would also be formally joining the Investment Committee from that date with a view in due course to succeeding the current Committee Chair when his term on the Gavi Alliance Board ends on 30 June 2020.

2. Manager presentation

- 2.1 The Chair reminded the Committee that an allocation of up to 10% of illiquid private debt in the long-term portfolio was approved in principle but had only been invested to a modest degree. A fund manager of private debt in the lower middle market space presented their strategy to the Committee.
- 2.2 Ms Jeanne Shen, Chief Investment Officer, presented the asset manager and highlighted that Gavi used this manager as an investor of public debt securities in the past. The purpose of the presentation was to highlight the potential opportunities in the asset class and to educate the Committee, with the understanding that a full due diligence had not yet been completed.
- 2.3 Senior representatives of the firm's strategy presented the fund, the team, sample deals, target returns, the market opportunities, and outlined their experience and approach to private lending (Annex A, Doc 02).

Discussion

- When asked about their US experience, the firm noted it is their sixth private debt fund but their first in the US. The Committee asked various questions about regulations, expected returns, leverage, deal sourcing and competition.
- The Committee further discussed the proposal from this firm and agreed that further due diligence would be required.

3. Manager presentation

- 3.1 The Chair presented the manager, who presented an overview of the firm, focus industry, the founder's and analysts' experience, firm's culture, their investment framework, and the firm research activities (Annex A, Doc 03).

Discussion

- In response to the Chair's question regarding the sizing of the net long exposure, the firm noted that they incorporate both top down macro considerations and the single name opportunity set to drive overall net long fund positioning.
- Other questions from the Committee included key person risk, investors' tenure and evaluation of earnings in the technology, media and telecom space.
- The Committee further discussed the proposal from this firm, reviewed the advantages and disadvantages of the firm and the strategy, and it was decided that the Chair and Ms Shen would have a follow-up discussion immediately after this meeting and revert back to the Committee with their recommendations.

4. Investment portfolio review

- 4.1 Jeanne Shen, Chief Investment Officer, updated the Committee on the first quarter (1Q) 2019 performance of the investment portfolio, manager activities and related transactions (Doc 04).
- 4.2 Ms Shen outlined the reversal from the volatile financial markets during 4Q 2018, pointing to positive economic indicators and a change in the Federal Reserve approach regarding rate hikes.
- 4.3 In relation to the long-term portfolio, Ms Shen noted the positive return in 1Q. She highlighted that the positive impact on an absolute basis was seen across the board, with only Equities underperforming its benchmark, as a result of the deliberate focus on adding hedged and contrarian strategies in recent years. The risk return characteristics of the portfolio were highlighted.

- 4.4 Ms Shen also noted the positive return of the short-term portfolio and manager performance in line with expectations.
- 4.5 Ms Shen presented the biggest manager exposures in the long-term portfolio and noted that none exceed 10% of the total long-term portfolio balance.
- 4.6 Ms Shen shared with the Committee updates regarding several managers.
- 4.7 Ms Shen stated that the total Gavi portfolio had generated an estimated net investment income of approximately US\$ 54 million in 1Q, with over US\$ 600 million since inception.
- 4.8 Ms Shen outlined the asset allocation ranges and available funds, and highlighted the need to invest more in the Fixed Income and Equity brackets.
- 4.9 With regards to Socially Responsible Investment (SRI), Ms Shen discussed the participation in Ceres and the increased pressure on companies to disclose climate change risk from groups such as faith-based organisations and asset managers. The Committee commented on the sharpened focus on climate change risk and how Gavi Alliance could manage it from a risk mitigation standpoint.
- 4.10 To conclude, Ms Shen indicated that after reviewing hedging strategies it was concluded that the Investments team did not have the appropriate staffing and operational setup to effectively handle active hedging and that the capital outlay for hedging would be too expensive relative to the portfolio size. The team should instead continue to focus on portfolio construction. This view was supported by the Chair and other Committee members.

Discussion

- In response to the Chair's question regarding the current return on the short term portfolio and cash, Ms Shen indicated it is approximately 2 percent annually.
- The Chair indicated there might be an option to allocate some of the available funds to some of the existing managers.
- The Committee discussed potential investments in Asia, and asked to review highlights from NEPC's internal Asia research task force at the September meeting. The Committee indicated that any search should be focused on the regional equity rather than fixed income markets, ideally for long/short strategies.
- The Committee asked for a review for options for how climate change risks could be integrated in Gavi Alliance's investment process at the September meeting.

5. Asset Allocation Statement

- 5.1 Ms Shen noted that the Committee approved a suggested change to the benchmark for short and intermediate-term periods for the Multi-Exposure sector, and, therefore, a revision to the Asset Allocation Statement is needed.
- 5.2 She highlighted that the Investments team received an email approval from the Committee for the new benchmark in March and that the current discussion is meant to formalise the approval and to approve the updated Asset Allocation Statement.
- 5.3 The Committee had no further comments on the updated statement.

Decision One

The Gavi Alliance Investment Committee:

Approved a revised Asset Allocation Statement to reflect the change in the Multi Exposure benchmark, attached as Annex B to Doc 05.

6. Any other business

- 6.1 The Chair noted that he had received feedback that it would be welcome if the Committee could meet once a year in person, and asked for feedback on the possibility of holding the 10 September meeting in New York.
- 6.2 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
- William Roedy
- David Sidwell
- Matthias Reinicke* (Agenda items 1-2)

Regrets

- Margaret Hamburg

Observers

- Afsaneh Beschloss
- George Wellde Jr.

Secretariat

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

Guests

- Sebastian Grzejka (NEPC)
- Dulari Pancholi (NEPC)
- Michela Alloca (NEPC)