

## Gavi Alliance Investment Committee Meeting

10 September 2019

BlackRock Office, New York City

### 1. Chair's report

- 1.1 Finding a quorum of members present, the meeting commenced at 08.30 New York City time on 10 September 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 7 May 2019 meeting were tabled to the Committee for information (Doc 01b). The minutes had been circulated and approved by no-objection on 12 June 2019.
- 1.4 The Committee noted its action sheet (Doc 01c) and the forward work plan (Doc 01d).

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### 2. Manager presentation

- 2.1 The Chair introduced the asset manager and noted that the presentation, at this stage, is for informational purposes only (Doc 02).
- 2.2 Hector Negroni, Founder, and Timothy Romer, Chief Executive Officer, presented the manager and the fund, the team, target deals, target returns, the market opportunities, and outlined their experience and approach to infrastructure debt markets in the US.

#### *Discussion*

- In response to a question from a Committee member in relation to how they source their deals, the manager noted that it is primarily through their wide network and connections with broker-dealers. The Committee asked various questions about working with municipalities, liquidity, social infrastructure and specifically the fund's approach to socially responsible investing, sources of financing, investment team composition and experience, deal sourcing and competition.
- The Committee further discussed the firm and fund and the Chair reminded the Committee that an allocation of up to 10% of private debt in the long-term portfolio was approved in principle but that well less than 10% had been invested to date.

- He noted that he and Jeanne Shen would have a follow-up discussion on the manager presentation later this year and would revert back to the Committee as appropriate. In particular it was important to review all potential allocations to the private debt bucket in the context of available market opportunities and Gavi's tolerance for more illiquid investments in the context of Gavi's strategic replenishment for the forthcoming five year period.

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### **3. Climate Change Risk Evaluation**

- 3.1 Ms Shen noted that following a request from the Committee at the May 2019 Investment Committee meeting to research and provide options for Gavi to integrate climate change risk into the portfolio review, the Investments team had prepared an outline of approaches (Doc 03).
- 3.2 Ms Shen described the first decision point of exclusion or inclusion used by institutional investors to address climate risk. She then described five possible approaches to address climate risk along with the strengths and weaknesses associated with each.

#### *Discussion*

- The Committee discussed the goal of the evaluation, as well as the potential approaches, and how the approaches coincide with the Gavi mission.
- The Committee further discussed the transparency of the holdings shared by Gavi's investment managers. It was noted that that all managers provided holdings by line item, particularly those with private securities.
- NEPC provided inputs regarding the different approaches utilised by institutional investors.
- The Committee requested the Investments team to engage an existing vendor to conduct a carbon related product involvement screen as well as manager carbon risk rating evaluation and present the findings to the Committee in November for further discussion. It is expected that with the benefit of this data, the Committee at the November meeting will choose a policy incorporating one, or more, or a blend of the five options discussed. It is anticipated that the Chair will present the final policy at the December Board meeting.

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### **4. Investment portfolio review**

- 4.1 Jeanne Shen, Chief Investment Officer, updated the Committee on the April through July 2019 performance of the investment portfolio, manager activities and related transactions (Doc 04).

- 4.2 Ms Shen noted that US trade tension with its major trading partners counteracted by central bank dovishness drove markets during April through July. She also noted that negative interest rates would present a continuing challenge to the banking sector's profitability and skew investor risk taking.
- 4.3 She reminded the Committee that Gavi has US\$ 199 million cash pending investment in the long-term portfolio.
- 4.4 In relation to the long-term portfolio, Ms Shen noted the positive return in 2Q. She highlighted that the positive impact on an absolute basis was seen across assets, with the Multi-Exposure allocation performing extremely well. The risk return characteristics of the portfolio were highlighted.
- 4.5 Ms Shen stated that the total Gavi portfolio had generated an estimated net investment income of approximately US\$ 100 million year-to-date.
- 4.6 She presented the portfolio allocation and noted it is within the approved ranges for each exposure. She also presented potential additional allocations to two existing fund managers in order to deploy a portion of the cash pending investment.
- 4.7 Ms Shen shared with the Committee updates regarding recent and upcoming transactions and presented a recommendation in connection with a dispersion fund that seeks to exploit demand/supply imbalances between broad index and individual stock options.
- 4.8 With regards to Socially Responsible Investment (SRI), Ms Shen presented the results of the December 2018 screen and noted only one manager modestly exceeded the 2% threshold.
- 4.9 To conclude, Ms Shen noted that the Investments team issued a gender equity questionnaire to its investment managers. Ms Shen highlighted the questions and reviewed the manager responses

### *Discussion*

- In response to a question, Ms Shen indicated that at some point the economic and credit cycle is due to mature, and returns in the future, and in particular the remainder of the year, would likely be lower.
- The Chair indicated that GAVI's Equity allocation underperformed the long only benchmark due to Gavi's allocation to hedged and contrarian strategies. This is expected and would always be the case in a rising equity market.
- The Committee discussed the advantages of the recommended dispersion fund in counter balancing equity and other potentially volatile exposures in the portfolio.
- Committee members enquired as to what extent NEPC could assist with diversity related issues. NEPC noted that they are looking into diversity issues more

extensively, including gender diversity, and detailed actions taken by firms in that regard.

- The Committee discussed the findings of the gender equality questionnaire, and requested that the Investments team explore a criteria for the annual risk review that considers both gender equity policy and gender pay review. The Committee also asked whether one or more of the multiple criteria in the annual Manager risk review are less important and/or redundant and can be removed.
- The Chair expressed appreciation to the Investments team for the performance results. He also expressed caution about results going forward taking into account slowing global growth, stretched valuations in certain asset classes and continued geopolitical uncertainty.
- The Chair also expressed appreciation to his fellow members for their time given to the number of topics and the productive discussion.
- The Committee **approved** the following recommendations:
  - To invest an additional US\$ 5 million with a Multi-Exposure trend following manager
  - To invest an additional US\$ 15 million with a credit focused manager
  - To invest US\$ 25 million in the dispersion fund and assign it to Gavi's Tactical allocation, contingent on there being no issues arising during the remaining due diligence process.

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## 5. Market Review and Regional Focus on Asia

- 5.1 Mr Sebastian Grzejka, NEPC, discussed opportunities in the Asia region. He presented information on growth in Asia and noted that even with the recent slowdown in growth, forward looking trends continue to point to the region remaining an important market for investors. He noted also that demographics and expanding consumer class make Asia attractive.
- 5.2 Mr Grzejka indicated that the overall Asian Pacific region represents a series of related and interconnected markets with multiple sectors represented. He noted that inefficient and dislocated markets can normally provide a solid opportunity for active management.

### *Discussion*

- In response to a question from a Committee member Mr Grzejka indicated that despite challenges the growth in China is still expected to be high.

- The Committee discussed the opportunity as well as potential risks, including liquidity.
- The Chair expressed the view that NEPC and the Investment Staff should be looking in particular at more liquid long/short equity strategies. While not ruling out a private debt strategy the legal environment in much of the region is more uncertain in respect of creditor rights.

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**6. Any other business**

- 6.1 After determining there was no further business the meeting was brought to a close.

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Mrs Joanne Goetz  
Secretary to the Meeting

## Attachment A

### Participants

#### Committee Members

- Stephen Zinser, Chair
- William Roedy
- David Sidwell
- Matthias Reinicke\*
- Margaret Hamburg\*

#### Observers

- Afsaneh Beschloss\*
- George W. Wellde Jr.

#### Secretariat

- Joanne Goetz
- Assietou Sylla Diouf
- Jeanne Shen
- Liron Sharon\*
- Lauren Cui\*
- Sandra Gonzalez Nederstigt\*

#### Guests

- Hector Negroni (Fundamental)
- Timothy Romer (Fundamental)
- Steven Pinkos\* (Fundamental)
- Sebastian Grzejka (NEPC)
- Dulari Pancholi (NEPC)

\*Denotes participation via telephone