

Gavi Alliance Investment Committee Meeting

9 November 2017

Teleconference

1. Chair's report

- 1.1 Finding a quorum of members present, the meeting commenced at 14.00 Geneva time on 9 November 2017. Stephen Zinser, Investment Committee Chair, chaired the meeting.
- 1.2 Standing declarations of interest were tabled to the Committee (Doc 01a).
- 1.3 The Committee approved the minutes from 3 August, 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, manager activities, and related transactions. She provided an overview of the major exposures in the short-term and long-term portfolios, contribution to mission, fixed income allocation, key characteristics of each portfolio exposure, asset allocation ranges and performance of the total portfolio, as well as individual managers (Doc 02).
- 2.2 Ms Shen provided a comparison of the Gavi long-term portfolio returns plotted against major indices, and observed that the composition of the Gavi portfolio should allow it to continue delivering returns as well as risk and volatility characteristics between that of the relevant global equity and global fixed income indices.
- 2.3 She pointed out that Gavi's equity allocation had outperformed the benchmark on a year-to-date (YTD) basis. Noting the YTD performance of the fixed income allocation, which was slightly below the benchmark, she informed the Committee that lack of non USD currency relative to the benchmark when the US Dollar weakened and relative shorter duration were contributing factors leading to this slight underperformance.
- 2.4 Ms Shen reviewed the performance of the largest funds and the fund managers in the long-term portfolio, noting specifically the managers with the best YTD performance, and also informing the Committee about those whose performance was lower than expected and whom the Investments team would be monitoring closely in the next period.
- 2.5 She then reviewed the short-term portfolio that was US\$ 1.1 billion as of 30 September 2017. She explained that since donor proceeds were invested exclusively in this portfolio, it is a plain vanilla portfolio with high quality and low

volatility characteristics. The Committee was also provided an update of the short-term portfolio managers.

- 2.6 Reviewing the contribution of investment activity to the Gavi mission, Ms Shen noted that the YTD net investment income was US\$ 87.9 million, based on the Gavi trial balance as of 30 September 2017.
- 2.7 Ms Shen provided an update on asset allocation within the long-term portfolio, noting that the market value of the long-term portfolio component was US\$ 954 million. Ms Shen noted the fixed income component was overweight (+8.9%) relative to its target weight and multi-exposure was underweight (-9.7%) relative to its target, whereas there were insignificant residual overweights in the equity and tactical composites.
- 2.8 The Committee discussed investing in a global equity strategy managed by a UK-based firm to replace an existing global equity manager. Ms Shen presented the investment strategy of the manager under consideration, and discussed its annualised net performance and fee structure.
- 2.9 The Committee sought clarity concerning the legal fund structure that the proposed firm offers that best fits Gavi's status, and year the fund was established. The Committee additionally requested further information about how the fund correlated to Gavi's other equity managers, as well as understand the reason for recent modest underperformance. The Investments team said that it would respond to the Committee's questions through a follow-up email.
- 2.10 The Committee **approved**, in principle, to invest US \$35 million in the proposed global equity strategy, contingent upon receiving the requested information from the Investments team.
- 2.11 Ms Shen reviewed the results of the June 2017 SRI screening of the portfolio, noting that five managers breached the 2% fund limit, including one manager which the committee previously agreed to terminate for repeated SRI breaches. The Committee agreed that while the remaining four managers did not need to be put on the watch-list yet, these SRI breaches would continue to be monitored closely by the Investments team.
- 2.12 Finally Ms Shen provided the Committee with an update on the custodian RFP, and informed that after completion of the due process it was decided to renew the contract with Lombard Odier. Next steps are to finalize the contract and execute with signatories.

3. Asset allocation and portfolio risk reviews

- 3.1 Sebastian Grzejka, from Gavi's consultant, NEPC, presented to the Committee its independent annual assessment of Gavi's long-term investments portfolio (Doc

- 03), noting that the discussion with the Committee would be used to inform the strategic and tactical priorities for 2018.
- 3.2 Mr Grzejka explained that NEPC had used three methodologies to review the portfolio: Asset Allocation-based Risk Measurement; Sensitivity-based Risk Measurement; and Portfolio-based Risk Measurement.
- 3.3 He informed the Committee that NEPC continued to believe that the overall target asset allocation was appropriate and therefore would make no changes in structural recommendations. However, NEPC recommended continued reduction to credit exposure within the fixed income allocation which is underway, and proceeding with reducing US equity exposure in the long-term portfolio.
- 3.4 In addition to providing the Committee a market update, Mr Grzejka also presented a risk review of the portfolio. He noted that the conservative implementation approach resulted in a risk profile in line with the target risk profile.
- 3.5 He presented the long term portfolio Value-at-Risk, a measure of expected downside risk, based on current target and implemented portfolios. He noted that while the potential loss in value over a one-year period might seem high, this value is more conservative than a traditional 60/40 equity/fixed income portfolio. Non-directional strategies and diversifying risk exposures are contributing factors to Gavi's relatively better outcome as predicted by the VAR model. Furthermore in volatile periods such as January 2016, Gavi's portfolio mark-to-market loss was well less than predicted by the VAR model, due principally to manager selection and the benefit of non-directional strategies seemingly not fully picked up by the VAR analysis.
- 3.6 In response to a question from a Committee member, NEPC clarified that based on the market sensitivity and scenario analysis of the portfolio, on a long-term basis, the portfolio is well protected from a downside shock as it is tilted more towards fixed income than equity.
- 3.7 Discussing the correlation between managers, NEPC noted that while some managers within the fixed income category displayed higher correlation, given recent and upcoming changes to the portfolio, including redeeming from one fixed income manager which is highly correlated to the portfolio's equity allocation, lower correlations are expected.

4. Annual risk rating

- 4.1 Jeanne Shen, Chief Investment Officer, presented the Committee with the Annual Risk Control and Assessment Report (Annex B, Doc 04). She reminded the Committee that each year the Investments team undertakes a process of assigning risk ratings to all investment managers based on the due diligence activities performed during the year.

- 4.2 She emphasised that the annual risk review includes reviewing managers' annual financial statements, internal controls and regulatory compliance reports, quarterly or semi-annual performance reviews, and onsite visits. Staff review managers using 12 risk characteristics prior to assigning a risk rating to each manager.
- 4.3 Ms Shen provided the Committee with details of the six managers that had been identified as requiring a higher level of due diligence, noting that the risk assessments will be a priority in the 2018 due diligence onsite visits.
- 4.4 The Committee sought the reason for the higher risk among two of the managers, and was informed that the higher risk rating was predominantly due to their investments in derivatives and performance issues which required closer monitoring.
- 4.5 The Committee endorsed the findings, analysis and next steps presented by the Investments team.

5. SRI Policy review

- 5.1 Jeanne Shen, Chief Investment Officer, presented the Committee with an overview of the bi-annual process deployed by the Investments team to screen its portfolio from an SRI perspective (Doc 05).
- 5.2 She reminded the Committee that during its recent meetings in 2017 the Committee had requested the Investments team to review the SRI Policy and report back on how to enhance the compatibility between the Policy and operating constraints.
- 5.3 Ms Shen recapped that the five screening criteria incorporated in the SRI Policy are tobacco, weapons, anti-personnel landmines/cluster munitions, human rights and child labour. The screens triggered an alert if a manager invests 2% or more of portfolio assets in companies that derive more than 10% of their revenue in these prohibited criteria. She then presented the screening processes and application of SRI principles applied within peer institutions.
- 5.4 Ms Shen noted that the five screens applied to investments under the Gavi SRI Policy inherently comprised both qualitative and quantitative factors. She noted that the qualitative screens used by Gavi can often be problematic in some areas such as child labour and human rights, where indirect effects are evaluated. She provided several examples of companies invested in by managers that are in violation of these screens. She noted that evaluating these types of breaches can be challenging. She stressed that the team's desk research did not identify health-oriented peer organizations that employ as broad set of screening criteria as Gavi does.
- 5.5 Ms Shen discussed a proposed approach with the Committee that may prove to be better in evaluating breaches by applying a more nuanced, qualitative approach

to supplement the quantitative screens. This qualitative aspect would require a more considered assessment on a case by case basis.

- 5.6 The Committee emphasised that the rationale for any update to the application of the SRI Policy would be to enable its effective implementation and ensure that Gavi continued to invest in a socially responsible manner.
- 5.7 The Committee requested the Investments team to complete a further analysis on how this would work in practice. Ms Shen informed the Committee that the team would, in coordination with Sustainalytics, the consulting firm Gavi uses to conduct its SRI screening, develop specific guidance on how this could be applied as proposed for further discussion with the Committee.

6. Any other business

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 (1-3, and 5)
- David Sidwell

Committee Member-elects

- Matthias Reinicke

Regrets

- Yifei Li

Secretariat

- Seth Berkley (1-3, and 5)
- Philip Armstrong
- Lauren Cui
- Barry Greene
- Mahwesh Bilal Khan
- Liron Sharon
- Jeanne Shen
- Janamarie Perroud
- Kimberley Villa

Guests

- George W. Wellde Jr.
- Angela Dawson (NEPC)
- Sebastian Grzejka (NEPC)
- Dulari Pancholi (NEPC)
- Chris Klapinsky (NEPC)