

## Gavi Alliance Investment Committee Meeting

1 November 2016

Teleconference

### 1. Chair's report

- 1.1 Finding a quorum of members present, the meeting commenced at 13.35 Geneva time on 1 November 2016. Stephen Zinser, Investment Committee Chair, chaired the meeting.
- 1.2 Standing declarations of interest were tabled to the Committee (Doc 1a in the Committee pack).
- 1.3 The Committee reviewed the minutes of its meeting on 2 August 2016 (Doc 1b), which were approved by no-objection on 15 September 2016.
- 1.4 The Committee noted its forward workplan (Doc 1c).

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### 2 Investment portfolio review

- 2.1 Jeanne Shen, Chief Investment Officer, reported to the Committee on the investment portfolio including market and strategy reviews, an overview of the major exposures in the portfolio, 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 noted that among the risks to consider within the portfolio, one risk which has not been thought about much in recent years is inflation. Ms Shen said that based on projections obtained from Bloomberg, inflation is projected to rise between 2016 and 2018. Increasing inflation, coupled with lower expected returns, has to be considered as it would erode the real value of the portfolio. The Investments team will be watching it closely, as well as observing the actions of central banks.
- 2.3 Ms Shen provided an overview of the returns for major sectors and outlined that the equity index has been generally positive, with some pockets of negative returns. Ms Shen noted that the fixed income index shows good returns for third quarter and year-to-date. More recently October fixed income returns have been negative as a result of a selloff in long government bonds which has accelerated further in November.

- 2.4 Ms Shen noted the positive performance of the tactical managers, including a long-short commodity manager and a long-only global infrastructure manager. Both managers have exceeded the benchmark returns.
- 2.5 Ms Shen provided a comparison of Gavi's long-term portfolio (LTP) returns to the returns of other major indices for years 2006-2016 YTD. Ms Shen noted that Gavi's LTP returns were somewhat low compared to the indices due to lower duration in fixed income relative to the fixed income benchmark, and some underperformance by certain equity and multi-exposure managers. However the underweight duration and overweight credit position in the fixed income portfolio had paid off well in October relative to the fixed income benchmark.
- 2.6 Several Committee members commented that compared to other endowments, and considering Gavi's conservative asset allocation, the portfolio return for the first nine months of 2016 on investments is solid.
- 2.7 Ms Shen noted that the largest holding is with a fund of hedge funds manager that will be redeemed in the end of 2016 as approved at the previous Committee meeting.
- 2.8 Ms Shen discussed the size of investment with a long-only global credit manager, and noted that despite a positive performance, there might be a need to reduce the investment size to not exceed 10 percent of the total long term portfolio.
- 2.9 Ms Shen noted that the performance of an active long-only US large cap equity manager placed on watch after the last Committee meeting has improved, but informed the Committee that this manager is still under close watch.
- 2.10 Ms Shen provided an update on the performance of the fixed income portfolio and noted overall the Q3 results met expectations. All managers exceeded their performance benchmarks with exception of one, a European ABS focused manager. It was noted that Ms Shen and Mr Zinser held a call with the founder of the fund in September to discuss performance, assets under management (AUM) and redemptions. Mr Zinser advised continued vigilance on both performance and AUM levels, given market liquidity in this asset class.
- 2.11 Ms Shen informed the Committee that the tactical managers have performed well, while the performance of the multi-exposure managers has been mixed, including a large absolute return manager, whose large size bears watching. NEPC confirmed an alignment of their views with the Gavi Investments team on this manager and explained that recent underperformance is related to positions that suffered in the aftermath of the Brexit vote.

The Chair requested that the presentation of the portfolio be further refined so that a snapshot dashboard of the entire portfolio, including recent performance data, would be available. He referred in particular to two pages of the most recent NEPC Risk Report which summarised the exposures comprehensively and which he found useful.

- 2.12 Ms Shen presented the risk-return characteristics of the portfolio and sought guidance from the Committee about their appetite for volatility. The Committee confirmed that lower volatility is the preferred approach.
- 2.13 Mr Sebastian Grzejka from NEPC noted that Gavi is achieving its objective of low volatility through its asset allocations.
- 2.14 Ms Shen confirmed to the Committee that the year to date (through September) net investment income was US\$ 54.7 million. She also noted that net investment income presentation will change in two years due to a change in a non-profit accounting reporting standard. The Committee noted that the year-to-date return for 2016 is one of its' best contribution to mission in Gavi's history, though it remained cautious there were potential risks to the final figure before year end.
- 2.15 In response to a questions about stress testing different scenarios pertaining to the possible short term volatility in the market due to the US elections in November 2016, NEPC informed the Committee that their analysis suggested that there could be short term volatility. However, Gavi's portfolio should be well positioned to weather short term shocks.
- 2.16 Finally, Ms Shen provided an overview of portfolio allocation shifts: 1) Completion of the investment in an emerging markets small cap equity strategy for a total amount of US\$ 25 million; 2) US\$ 20 million was added to an existing credit manager, 3) Full redemption of US\$ 51 million from hedge fund manager allocating to "real assets". 4) partial redemption of a manager investing in MSCI EAFE with an alpha overlay in the amount of US\$ 8 million; and 5) US\$ 20 million was invested as a first tranche in an emerging markets macro fund. It was noted that total amount to be invested in this fund will be US\$ 35 million, and not US\$ 40 million as indicated at the last Committee meeting, as the fund was significantly oversubscribed.
- 2.17 Ms Shen recommended a redemption of a short duration European credit manager during the first quarter of 2017. The reason for the recommendation is not performance but limited investment opportunities in European credit and potential overlap between this fund and Gavi's US fixed income allocations. The Committee **approved the recommendation**, and noted high valuations as another reason for redemption.
- 2.18 Ms Shen informed the Committee that the Investments team is reviewing an international equity manager, and may request the Committee to review and approve the addition of the strategy in the near future.
- 2.19 Ms Shen presented an overview of the Socially Responsible Investing (SRI) as it is applied to the Gavi investment portfolio, clarifying that Gavi is in the 'negative screening' phase, which is an early form of responsible investing adopted by institutions to avoid investments incompatible with their missions.

- 2.20 Ms Shen explained that 11 out of 19 of Gavi's managers are signatories to the United Nations-sponsored Principles for Responsible Investment (UNPRI). NEPC confirmed that they are also a UNPRI signatory.
- 2.21 Ms Shen updated the Committee regarding the status of the Internal Audit review open items and informed the Committee that by the end of the year all open issues would be closed. She also informed the Committee that the Investments team's risk rating has been improved by Internal Audit, which lowered it to low risk.
- 2.22 Ms Shen noted that the Investment Committee Chair's update for the December Board meeting will include the Committee's intent to modestly modify the asset allocations for fixed income and multi-exposure in the Investment Policy. This was one of the conclusions of the NEPC review earlier this year.
- 2.23 Finally Ms. Shen updated the Committee about the October 2016 decision of Gavi Campaign Board to wind down. The Campaign was invested in short-term assets and used two of the same managers as the Alliance. These assets of US\$ 34.1 million are to be rolled into Alliance accounts in order to minimise transaction costs.

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### **3 Annual risk rating**

- 3.1 Ms Shen reported to the Committee on the annual risk rating report (Doc 03). The process of risk rating the managers, which is to form the basis of the due diligence activities for the next calendar year, was explained. Five managers, which as of 31 August 2016 managed US\$ 198.7 million for Gavi, were identified as being in the higher risk tiers. However, two managers will not be in the portfolio in 2017 as the funds were, or would be, redeemed by year-end 2016.
- 3.2 The Committee noted the low level of Gavi investment risk tolerance, those managers who have been on the high or moderate risk levels, are either retired from the portfolio or closely monitored.
- 3.3 The Committee commended the systematic approach the Investments team took in presenting the analysis, and asked if there is any criteria that is being looked to be modified, for example from an SRI perspective. Ms Shen explained the different risk analysis criteria that are being considered in the analysis, and noted that SRI is being analysed separately.

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### **4 Committee Charter review**

- 4.1 Mr Philip Armstrong, Director, Governance, highlighted that the three documents circulated to the Committee (Doc 04), namely, the draft Committee Charter as well as the skills and competencies presentation and matrix.

- 4.2 The documents were modelled along the lines of the Audit and Finance Committee (AFC) Charter and skills and competencies matrix for consistency, and is part of the process underway at Gavi to refresh and realign the charters of the committees to the organisation's mission and updated strategy, as the results of the Board and Committee Self-Evaluation are being finalised for presentation to the Board in December 2016.
- 4.3 Mr Armstrong invited Committee members to provide input on the draft Charter. He noted that the skills and competencies matrix has been updated based on the comments received during and after the August meeting of the Investment Committee, as well as based on inputs that were solicited by the Investments team from NEPC and Vanguard.
- 4.4 The Committee Chair noted that the Charter accurately captured the work of the Investment Committee and all other members agreed. It was agreed to table the document to the Governance Committee for its approval during its meeting in December 2016.

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

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Mr Philip Armstrong  
Secretary

## Attachment A

### Participants

#### **Committee Members**

- Stephen Zinser, Chair
- Yifei Li (joined midway agenda item 2)
- William Roedy
- David Sidwell

#### **Secretariat**

- Philip Armstrong
- Lauren Cui
- Barry Greene
- Mahwesh Bilal Khan
- Alexandra Laheurte Sloyka
- Liron Sharon
- Jeanne Shen

#### **Guests**

- George W. Wellde Jr.
- Sebastian Grzejka, Consultant (NEPC)
- Dulari Pancholi, Research Consultant, Hedge Funds (NEPC)
- Angela Dawson, Analyst (NEPC)