

Gavi Alliance Investment Committee Meeting

12 February 2016

Teleconference

1. Chair's report

- 1.1 Finding a quorum of members present, the meeting commenced at 14.00 Geneva time on 12 February 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 4 November 2015 (Doc 1b), which were approved by no-objection on 7 January 2016.
- 1.4 The Committee reviewed its action sheet (Doc 1c), and noted its forward workplan (Doc 1d).

2 Investment portfolio and policy reviews

- 2.1 Jeanne Shen, Chief Investment Officer, introduced this item explaining she would report on the investment portfolio and then the NEPC consultants would present to the Committee the proposed portfolio asset allocation. Finally, Ms Shen would review the Asset Allocation Statement and the Investment Policy for the Committee's approval.
- 2.2 Ms Shen reported to the Committee on the investment portfolio including a market and strategy review, an overview of the major exposures in the portfolio, contribution to mission, global equity, fixed income allocation, key characteristics of each portfolio exposure, and total performance including analysis of individual managers and managers on watch (Doc 2).
- 2.3 Investment Committee members asked among other things about the short and long term portfolios, the forecast of cash needs, and manager performance against the benchmark. Ms Shen highlighted that multi-exposure assets performance had no benchmark, which will be addressed in the revised Investment Policy. She also informed the Committee that the largest manager in the long-term portfolio will be redeemed throughout the year and another manager with a large allocation in the portfolio will be considerably reduced, which will be discussed further in the NEPC presentation. The Chair commented that overall, several managers with negative

performance in a challenging year had a limited impact on the portfolio due to their modest allocations in the portfolio.

- 2.4 Ms Shen indicated the request to increase allocations to two recently hired managers. One of the managers hired at the end of 2014 had solid performance in 2014 but faced challenges in 2015. However, Ms. Shen expected the manager's skill set and experience to allow it to take advantage of current market opportunities in securitized assets. NEPC concurred with the assessment. She noted that she and the Committee Chair had discussed setting up a call with the founder after the meeting and that an additional allocation was not imminent.
- 2.5 Ms Shen also discussed the scenario analysis of potential drawdowns. She confirmed that a cross-functional team had been assembled but no figures were yet available so that the Investments team could conduct analysis for the Committee. Investment Committee members also made an inquiry on non-dollar denominated securities, and Ms. Shen confirmed that the portfolio does have non-denominated securities and depending on the strategy and the manager, the currency exposure could be hedged. She reiterated that Gavi invests in the US dollar share class of investment strategies.
- 2.6 Ms Shen then reviewed the fourth quarter performance and strategies of the two managers due for redemption. Following a question from the Chair, Ms Shen provided additional performance figures for January 2016. The Chair asked what the redemption guidelines were and Ms Shen confirmed that this specific manager had a high dollar minimum so the redemption would move quickly rather than in a series of instalments. NEPC concurred.

3 NEPC Asset Allocation review

- 3.1 Following a quick introduction, Christopher Klapinsky, Sebastian Grzejka and Dulari Pancholi from NEPC provided a high-level overview of the markets, their recommendations for potential opportunities for the Gavi portfolio and finally asset class assumptions (Doc 4). As per the Investment Committee's request, NEPC focused on the favoured option from the November 2015 meeting and made adjustments to reflect the Committee's modest risk appetite. NEPC reviewed the rationale for the proposed asset allocations and discussed the types of investment strategies for the Committee to consider.
- 3.2 Investment Committee members concurred with NEPC's market analysis and proposed asset allocation. The Investment Committee, NEPC and Ms Shen discussed emerging market equities allocation which has two investment managers and the possibility of cutting one manager or conducting a search for a new manager given the Committee's desire to appropriately scale the number of managers to the relatively small size of the Investments team. To a question on the practice of a look through analysis of key exposures of the portfolios, Ms Shen confirmed the analysis and exhibits in the presentation focused on the long-term portfolio as the short-term portfolio only has fixed income assets.

- 3.3 NEPC then detailed the proposed strategy around the manager redemptions mentioned earlier in Ms Shen's presentation that would fund new managers. The Investment Committee members agreed to follow the suggestion to proceed with the full redemption of one manager to another manager, for an amount of \$48.9 million, and to use existing redemption proceeds temporarily placed in the short-term portfolio for an amount of \$35 million. The Chair reiterated that he would have a manager call as discussed in 2.4 and report back to the Committee. The Investment Committee complimented NEPC and Ms Shen on their presentations.
- 3.4 In response to a suggestion from William Roedy, the Investment Committee noted key messages to highlight while reporting to the next Board meeting on the portfolio performance, the timeline, the new asset allocation, the overall experience with the previous consultants and the change with NEPC. Ms Shen confirmed to the Investment Committee that several key donors who have expressed interest in the investment portfolios have already been informed of the proposed asset allocation.

4 Investment portfolio and policy reviews (cont'd)

- 4.1 Ms Shen presented an overview of the Asset Allocation Statement and the Investment Policy update (Doc 02). The Committee had no further comments and approved the proposed changes to the Asset Allocation Statement and the Investment Policy.
- 4.2 Then Ms Shen provided an update on the Socially Responsible Policy (SRI) and recent engagement with the managers that breached the 2% limit. Following a semi-annual screening of June 2015 holdings, she highlighted that three funds were breaching the policy as of June 2015, though one fund reported it sold securities that breached Gavi's SRI policy. The two remaining funds, both emerging market equities funds, breached the 2% limit in December 2014. Per the SRI policy, consecutive periods of breaches triggers an internal evaluation. The Investments team will look at potential options, one of which may be to identify a potential replacement with a consumer-facing focus that has an acceptable risk-return profile and may have the added benefit of a lower probability of breaching the SRI policy. Ms. Shen also proposed a review of the SRI screening process given Gavi only invests in commingled funds and researching whether Environmental Social Governance (ESG) criteria may be more effective means for screening investment managers.
- 4.3 The Chair informed the Committee that he had to leave the meeting and designated Mr David Sidwell to chair the rest of the meeting.
- 4.4 Finally, Ms Shen informed the Committee regarding the ongoing work with Gavi's Internal Audit. Results are being finalised and a draft has been shared with the Investment Committee Chair and Barry Greene. Ms Shen will follow up with the

Internal Audit team to get a timeline for the outcome availability to the Investment Committee.

Decision One

The Gavi Investment Committee:

- a) **Approved** the amended Gavi Asset Allocation Statement attached as Annex B to Doc 02.
- b) **Approved** the amended Gavi Investment Policy attached as Annex D to Doc 02.

5 Risk and control assessment report

- 5.1 Ms Shen reminded the Committee that it received the risk and control assessment report by email on 21 January 2016 (Doc 03). She asked for feedback on the document that is assessing not only managers' performance but taking into account a wider range of criteria. The Chair enquired about the situation of a specific manager rated as high risk and Ms Shen confirmed that, as a result of the risk rating and her team's analysis, the assets allocated to this manager will be redeemed in the nearfuture.

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 (until item 4)
- Yifei Li
- William Roedy
- David Sidwell

Secretariat

- Philip Armstrong
- Rebecca Cruz
- Lauren Cui
- Barry Greene
- Alexandra Laheurte Sloyka
- Jeanne Shen

Guests

- George Welde (until item 4)
- Christopher Klapinsky, Partner (NEPC)
- Sebastian Grzejka, Consultant (NEPC)
- Dulari Pancholi, Research Consultant, Hedge Funds (NEPC)
- Michael Gaughan, Analyst (NEPC)