

Gavi Alliance Investment Committee Meeting

2 August 2016

Teleconference

1. Chair's report

- 1.1 Finding a quorum of members present, the meeting commenced at 14.30 Geneva time on 2 August 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 May 2016 (Doc 1b), which were approved by no-objection on 5 July 2016.
- 1.4 The Committee noted its forward workplan (Doc 1c). The Chair invited the Committee members to provide their comments, if any, by email to Philip Armstrong, Director of Governance.

2 Investment portfolio review and SRI policy recommendation

- 2.1 Jeanne Shen, Chief Investment Officer, highlighted that the presentation was divided into two main topics: (i) the investment portfolio review (ii) and the Socially Responsible Investment (SRI) policy (Doc 2).

Investment portfolio review

- 2.2 Ms Shen 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 and equity allocations, key characteristics of each portfolio exposure, asset allocation ranges, and performance of the total portfolio as well as individual managers.
- 2.3 She noted that the United Kingdom referendum commonly known as "Brexit" had impacted some of the managers as few had foreseen the United Kingdom voting in favour of leaving the European Union. Also, the British Pound's depreciation in value was exceptional, and noted that uncertainty as it relates to Europe, remains high.

- 2.4 Ms Shen provided an update to the Committee on manager performances year-to-date. She noted that an emerging markets manager facing challenges last year was improving its performance this year but was due for redemption at the end of the month as approved by the Committee at its last meeting. Ms Shen highlighted that a US large cap growth manager's strategy has not been meeting expectations in 2015 and so far in 2016. The Committee members asked additional information on the manager, its strategy, past annual returns, as well as its most recent performance results. The Chair noted that year-to-date results were not favourable for most equity managers, relative to a reference benchmark. However, given the underperformance duration of the latter manager, the Chair requested that its performance be monitored closely. It was agreed that the Chair and Ms Shen (with input from NEPC) will assess this manager and will report back to the Committee with a recommendation early in the fourth quarter.
- 2.5 Ms Shen reported on the Q2 results of a current ABS and MBS oriented fund that has already been discussed at the May Committee meeting. The Chair noted that many fixed income managers' returns suffered from Brexit vote and June returns reflected the negative news. However, many managers' performance numbers subsequently improved over the month of July. It was agreed that the Chair and Ms Shen (with input from NEPC) will assess this manager and will report back to the Committee with a recommendation early in the fourth quarter. The Chair noted that, overall, the effect of this manager's performance on the portfolio was minimal.
- 2.6 Ms Shen noted the positive performance of the tactical managers, and particularly a current long-short commodities manager. Ms Shen reminded the Committee that Gavi is on the manager's waiting list for an additional investment.
- 2.7 The Committee noted that a multi-exposure manager's performance was on the low side since Gavi's investment in April 2016. It also noted that the manager had a very strong long term track record and therefore, it is too early to discuss its performance.
- 2.8 Ms Shen also provided an update on the performance of a current a fund of hedge funds discussed at the previous Committee meeting. She noted the Q2 results did not meet expectations although that was more a reflection on the difficulties which many fund of funds are having rather than a commentary on the manager specifically. The Committee discussed potential options regarding this manager.
- 2.9 Ms Shen noted regarding the fixed income portfolio that its duration was low compared to the benchmark, but achieved higher yield and was sufficiently liquid.
- 2.10 The Committee members requested to change the format of the long term portfolio manager summary in future presentations, and in relation to the contribution for the mission, it was requested to present the annual break down since inception.
- 2.11 Ms Shen provided a detailed review of the Secretariat's four recommendations for potential opportunities to the portfolio. Ms Shen reviewed the rationale for the proposed asset allocations for the Committee to consider as follows:

- 2.11.1 The first recommendation was to partially redeem a manager investing in MSCI EAFE and an alpha overlay. It was noted that due to the Committee meeting being postponed to 2 August and given the deadline of 1 August 2016 to proceed with the redemption notice, the Chair had **approved the recommendation** by email for the partial redemption of one-third or approximately US\$ 8 million. The redemption had already been discussed by the Committee in February 2016 though no amount or date had been confirmed.
- 2.11.2 The second recommendation was to redeem the remaining investment of a real asset fund by end of September for an amount of approximately US\$ 50 million, as previously discussed with the Committee. To a question from a Committee member, Ms Shen noted that this manager had produced good results in the second quarter of 2016 after a difficult period last year. The Committee **approved the recommendation**
- 2.11.3 The third recommendation was to redeem a fund of hedge funds by the end of the year following the discussion in 2.8. Committee members had no further comments and **approved the recommendation**.
- 2.11.4 The fourth and last recommendation was to invest US\$ 40 million in two tranches in a macro fund with a focus on emerging markets. Ms Shen provided positive feedback on this manager following on-site due diligence visit. NEPC concurred, noting the quality of this fund's results and its tactical approach. To a question from a Committee member, Ms Shen noted that this fund was approached following a recommendation of NEPC in an effort to keep diversifying the portfolio. It was noted that at the Secretariat's request, NEPC ran a correlation analysis of this fund against some of the current funds in Gavi's portfolio, indicating low correlation. Ms Shen noted the fund closed earlier this year and is expected to reopen in September. The Chair noted the consistency of the manager's returns, and agreed with the recommendation, and suggested to inquire regarding the fund's fees. Ms Shen added that with regards to the SRI policy, the fund only agreed to share a fraction of its holdings, as only a portion of it is corporate related. The Investment team determined after analysis that there was a low probability that the fund breaches Gavi's SRI policy. Ms Shen requested the Committee to rate the fund as SRI-Exempt. The Committee agreed with the SRI-Exempt status and **approved the recommendation**.
- 2.12 Ms Shen noted that the SRI policy is actively shared with investment managers and highlighted the reluctance of some of them to share details of their holdings.

Socially Responsible Investment (SRI) policy recommendation

- 2.13 Ms Shen presented an overview of proposed changes to the SRI policy, which included the Committee's suggestions at its May meeting to enhance the SRI methodology and diligence.
- 2.14 The Committee discussed the extent to which the policy can be enforced without limiting the investment prospects. Ms Shen noted that the definitions for responsible investing varies widely among managers, which makes it difficult to

strictly enforce the policy with any definitive criteria that would be consistent across all the managers in the portfolio. The Committee added that there should preferably be a positive obligation on managers to comply with the policy and inform the Secretariat in the event of any breaches.

- 2.15 Mr. Sidwell had some specific modest suggestions on the draft policy and it was agreed that Mr Armstrong, Ms Shen, and Mr Sidwell will incorporate these suggestions and recirculate a revised version to the Committee. Subject to these agreed suggestions the draft policy was approved in principle.

3 Investment risk management

- 3.1 Mr Sebastian Grzejka from NEPC reported to the Committee on the investment risk management report (Doc 03).
- 3.2 NEPC reviewed the Gavi portfolio under different risk scenarios to gauge sensitivities and evaluate unintended risks, details on the methodology used and its recommendations to reduce the portfolio risks. Mr Grzejka noted that NEPC will run this analysis annually.
- 3.3 NEPC did not recommend any changes to the strategic asset allocation of the long-term portfolio at the current time. However, they believe that the target ranges within the portfolio require adjustments. It was proposed that the equity and tactical allocations remain intact and to adjust the fixed income and the multi-exposure ranges. It was noted by a committee member that the fixed income range would now be quite broad and would need to be carefully explained. The Committee **approved the recommendations.**
- 3.4 Mr Grzejka also provided a market analysis update and an asset allocation-based risk measurement review, including pro forma risk allocation, applying value at risk, and a market sensitivity and scenario analysis. Responding to a Committee member question related value at risk, Mr Grzejka noted that probability was calculated on a 12-months' trailing basis.
- 3.5 The Chair noted that highlights from the risk analysis should be included in the next Committee presentation to the Board as part of the risk discussion. He also noted that the portfolio had a drawdown in January and it has recovered since. In particular the extent of the drawdown was significantly less than what the risk model was predicting.
- 3.6 Mr William Roedy informed the Committee he had to leave the meeting.
- 3.7 Mr Grzejka reviewed the sensitivity-based risk measurement, including a review of the factor analysis. Their report suggests that while the portfolio is conservative with a relatively low directional equity exposure, it still retains a bias towards growth. He cautioned that the factor analysis does not take into account portfolio implementation. Mr Grzejka also reviewed the portfolio-based risk measurements

(such as manager excess return correlations and manager total return correlations). A committee member commented the correlation analyses was very useful and suggested that this analysis be used as part of the screening process before the addition or redemption of a manager. To a question on the reasons why some correlations were high, Mr Grzejka agreed that some correlations were unexpected. He also noted that the analysis was done over a short period of time to include all the current managers in the portfolio. It was suggested that the Secretariat will use excess return correlations in the review the portfolio's risk.

4 Committee Charter review

- 4.1 Mr Armstrong highlighted the three documents circulated to the Committee (Doc 04), namely: (i) draft of the revised Committee Charter, (ii) outline of a proposed skills and competencies matrix and (iii) outline of a presentation, that will summarise this material for the guidance of the Governance Committee.
- 4.2 Mr Armstrong noted that the review of the Charter is related to the ongoing Board and Committee self-evaluation, and in anticipation of issues related to the effectiveness of some Committees but also to ensure that all Committee Charters reflected the current work being undertaken and prevailing best practices where relevant.
- 4.3 The three documents were modelled on the new Audit and Finance Committee (AFC) Charter, whose revision is well advanced. In June, the Committee Chair requested Mr Armstrong and Ms Shen to review the Charter in line with the work done on the AFC Charter.
- 4.4 Mr Armstrong invited Committee members to provide input on the draft Charter and also on the skills and competencies matrix and presentation and matrix.
- 4.5 Mr Sidwell noted that the responsibilities in the Charter should reflect the actual work and tasks of the Committee over time given the oversight role of the Investment Committee over the Secretariat. He also noted that it ensured the workplan was aligned with best practices. The Committee Chair noted he had already provided comments on the Charter before its circulation to the Committee and that the draft Charter looked to be in line with the Committee's responsibilities and current functions.
- 4.6 It was suggested that the Charter could include some language to encourage Board members other than Unaffiliated Board members to join the Committee.
- 4.7 Committee members were invited to provide additional comments by email to Mr Armstrong by the end of August.
- 4.8 NEPC left the meeting at this point.

5 Any other business

NEPC performance review

- 5.1 Following a request from the Committee at its meeting in May, the Committee members and Ms Shen discussed NEPC's performance without NEPC present.

2017 Committee meeting dates

- 5.2 At the request of the Chair, the 2017 Committee meeting dates will be circulated by email to the Committee members to confirm their availability.

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
- Yifei Li
- William Roedy (until agenda item 3)
- David Sidwell

Secretariat

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

Guests

- George W. Wellde Jr.
- Sebastian Grzejka, Consultant (NEPC)
- Angela Dawson, Analyst (NEPC)