

## Gavi Alliance Investment Committee Meeting

14 November 2019

Teleconference

### 1. Chair's report

- 1.1 Finding a quorum of members present, the meeting commenced at 14.00 Geneva time on 14 November 2019. Stephen Zinser, Investment Committee Chair, chaired the meeting.
- 1.2 Standing declarations of interest were tabled to the Committee (Doc 01a).
- 1.3 The minutes of the 10 September 2019 meeting were tabled to the Committee and duly approved (Doc 01b in the Committee pack).
- 1.4 The Committee noted its action sheet (Doc 01c) and the forward work plan (Doc 01d).

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### 2. Asset allocation review and portfolio risk review

- 2.1 Sebastian Grzejka, Senior Consultant, NEPC, presented to the Committee their independent annual assessment of Gavi's long-term investments portfolio (Doc 02), noting that the discussion with the Committee would be used to inform the strategic and tactical priorities for 2020.
- 2.2 Mr Grzejka noted that the purpose of the annual review is to reaffirm the asset allocation of the portfolio, tie into it their view of the markets, identify approaches or opportunities for the upcoming year, and look at the portfolio from a risk perspective. This year they added the climate change risk framework, some of which will be discussed in more detail in 2020
- 2.3 He went on to note that NEPC recommends minor adjustments to the asset allocation, which "right size" exposures and account for the likely market environment and GAVI's desired risk profile. He presented two options for new asset allocation mixes, recommending Mix 2 as the preferred option.
- 2.4 It was reported that as of 30 September 2019, the portfolio was near target allocation for all categories, and that the current allocation is in line with the risk and return target for the overall portfolio. He noted that the portfolio construction is still conservative.

- 2.5 It was explained that within Mix 2 the proposal maintains a conservative posture, while adjusting for areas of focus or likely risk for the portfolio. These tweaks included a modest increase in private debt, reduction of the TIPS allocation, modest reduction of US equity exposure in favour of global equity and slightly increasing the multi exposure allocation. This should improve the risk return profile of the portfolio.
- 2.6 When discussing the potential risks and scenario analysis, Mr Grzejka highlighted the portfolio losses which could occur under a 1 Sigma and 2 Sigma Value at Risk analysis. The Chairman commented that his expectation would be that the Long Term portfolio would incur a meaningfully lesser drawdown than those numbers due to the inherent checks and balance in portfolio construction together with the fact that the portfolio is positioned for a more late cycle investment landscape.
- 2.7 Mr Grzejka then presented NEPC's longer term climate change scenario that is based on selected risk factors of climate change alongside the ability of nations to adapt to changing economic, governance, and social conditions. Each of the scenarios presented is likely to have a different effect on the future investment performance of different asset classes.

### *Discussion*

- The Chair asked NEPC about their views on US equity exposure, and NEPC noted that their preference was for increasing global equity exposure if any increase in equity exposure was being considered.
- The Chair noted that he and Ms Jeanne Shen, Chief Investment Officer, will discuss the asset allocation recommendations and revert shortly with final re-balancing recommendations to the Committee.

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### **3. Investment portfolio review**

- 3.1 Ms Jeanne Shen, Chief Investment Officer, updated the Committee on the performance of the investment portfolio, manager activities, and related transactions (Doc 03).
- 3.2 Ms Shen noted that despite risks to global growth, the US expansion continues, and that some of the risks identified earlier this year seem to be receding. However, both risk assets and risk-free assets looked expensive on most metrics.
- 3.3 She noted that there is still cash to be deployed.
- 3.4 Regarding the short-term portfolio, it was noted that overall it is performing as expected and indicated the high credit quality of the underlying securities.

- 3.5 Ms Shen then reviewed the performance of the exposures, all of which are positive in 2019. She noted that the multi exposure strategies did especially well in 2019 after being a drag on performance in 2018. She also reviewed the fund managers in the long-term portfolio, noting specifically the managers with the best year-to-date performance, and also informing the Committee the Investments team would be monitoring closely one long-short TMT equity manager that had a poor performance in September 2019 due to a sharp reversal in momentum strategies.
- 3.6 She presented significant relative performance themes during 3Q 2019, as well as recent and upcoming transactions.
- 3.7 Ms Shen recommended to terminate a short-term ultra-low duration bond manager. She noted that this manager was added when assets in the short-term portfolio were significantly higher, and noted the reduction is needed to rationalise the number of managers and due diligence efforts.
- 3.8 The results of the June 2019 SRI screen were presented, and it was noted that only one manager breached the 2% threshold and that conversations with that manager had been held and will continue. No action was proposed to be taken due to the modest nature of the breach.
- 3.9 Ms Shen outlined to the Committee the completed 2019 due diligence schedule and noted that all meetings are scheduled to be completed by mid-December.
- 3.10 The Committee **approved** the following recommendation:
- To terminate the short-term ultra-low duration bond fund due to operational reasons (see 3.7 above).

### *Discussion*

- The Chair commented on his disappointment with the risk management of a long-short technology/media/telecom equity manager. The Committee noted the volatility in the sector in which the manager invests in and requested NEPC to understand the risk management process of that manager. The Chair also noted that he would be having a conference call shortly with the principal of this firm, a call which had been arranged by Ms. Shen who would also attend.
- Following discussion with the Secretariat, and being reassured about the reasonableness of the fees, the Committee were supportive of the continuation of the current SRI screening vendor.

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## **4. Sustainable Investment Policy**

- 4.1 Ms Jeanne Shen, Chief Investment Officer, noted that following the Committee meeting in September the Secretariat recommended upgrading the Socially

Responsible Investment (“SRI”) Policy to a Sustainable Investment Policy (Doc 04). The primary revisions made to what had been the SRI Policy included language to expand the approaches that Gavi may adopt to manage climate change risk to the portfolio.

- 4.2 Ms Shen discussed the options for monitoring and evaluating climate change risk and the feasibility and timing for implementation.

*Discussion*

- The Committee enquired regarding the different methods used to evaluate climate change risk. Potential impacts on the composition of the portfolio was discussed.

**Decision One**

The Gavi Alliance Investment Committee **approved** the Sustainable Investment Policy as set out in Annex C, Doc 04.

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**5. Annual risk rating**

- 5.1 Ms Jeanne Shen, Chief Investment Officer, explained that the Investments team annually undertakes a process of assigning risk ratings to all investment managers based on a range of monitoring and due diligence activities performed throughout the year.
- 5.2 Ms Shen explained that the 12 characteristics used for the previous year’s risk rating exercise were retained and a 13<sup>th</sup> criterion was replaced following a recommendation from the Committee in their meeting on 10 September 2019. Gender equality criteria was added and Quality of Service & Responsiveness, was removed.
- 5.3 Ms Shen outlined the one manager that was rated ‘very low risk’, the 12 managers who were rated as ‘low risk’, and the seven managers rated as ‘moderate risk’. No managers were rated ‘high risk’.

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**6. Any other business**

- 6.1 After determining there was no further business, the meeting was brought to a close and then proceeded into an Executive Session with only Committee members and the Gavi CEO present.

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Mr Philip Armstrong  
Secretary



## Attachment A

### Participants

#### Committee Members

- Stephen Zinser, Chair
- William Roedy
- David Sidwell

#### Regrets

- Peggy Hamburg
- Matthias Reinicke

#### Secretariat

- Seth Berkley (in Geneva)
- Assietou Sylla Diouf (in Geneva)
- Philip Armstrong (in Geneva)
- Jeanne Shen (in Connecticut)
- Liron Sharon (in Washington DC)
- Sandra Gonzalez Nederstigt (Washington, DC)

#### Guests

- Sebastian Grzejka (NEPC) (items 1-3)
- Dulari Pancholi (NEPC)
- Michela Allocca (NEPC)
- George W. Wellde Jr. (in US)
- Afsaneh Beschloss, RockCreek (in US)