

# TECHNICAL BRIEFING: GAVI INVESTMENT PORTFOLIOS

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BOARD MEETING

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1 December 2015, Geneva



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# OBJECTIVES AND GOALS

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1. **Background**
2. **Evolution of the investment portfolio**
3. **Concepts: where are we now?**

# 1

## BACKGROUND

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# PORTFOLIO OBJECTIVES

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## Short-term

- Maintain **liquidity** to meet anticipated operating requirements.
- Provide for prudent diversification of investments to minimize credit and market risk exposure.
- Generate income.

## Long-term

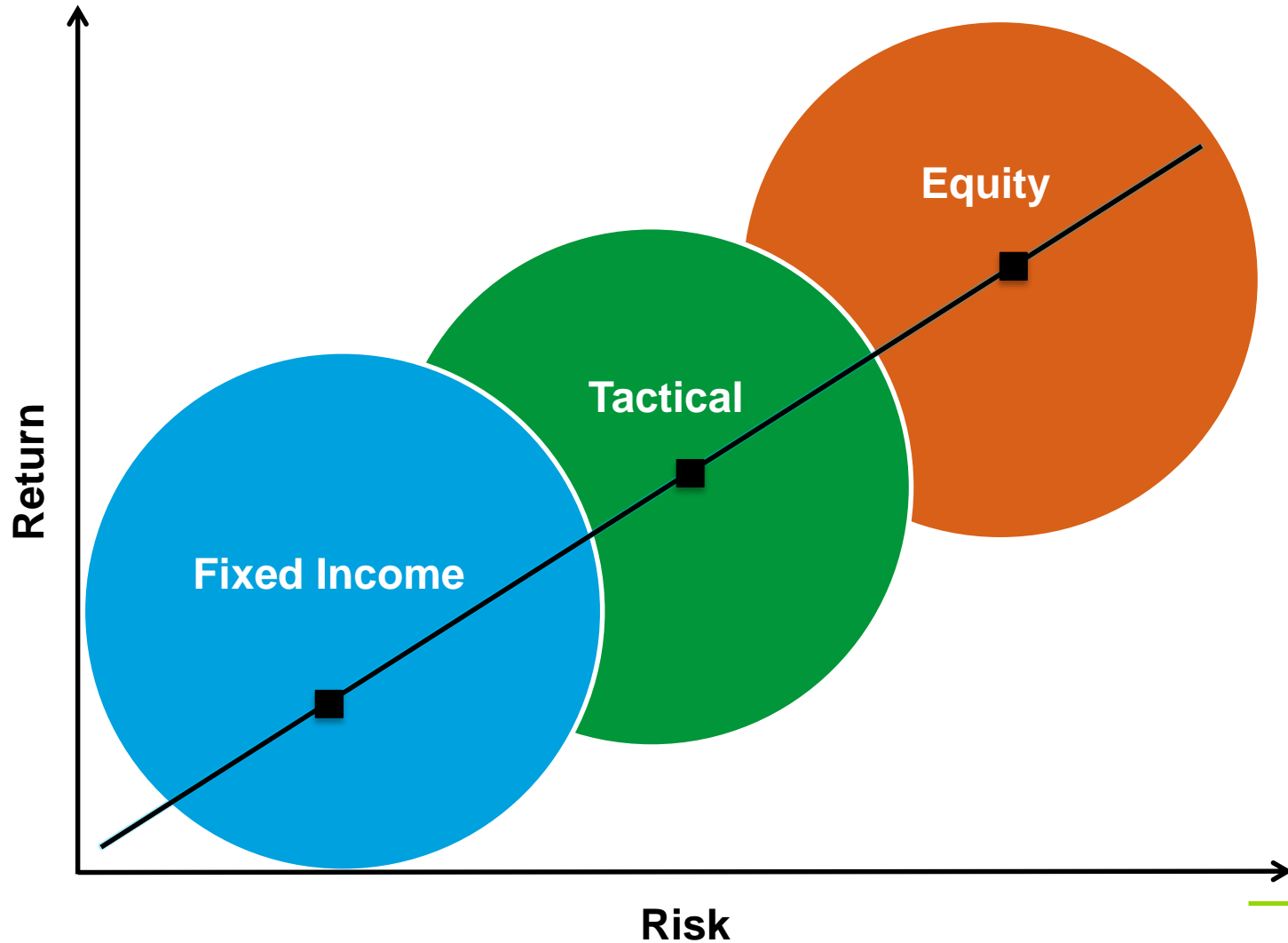
- Generate a **positive real (after inflation) return**.
- Generate income for current spending.
- Provide a prudent degree of **growth** in assets to support future spending.
- Provide for **prudent diversification** of investments to minimize correlation among investment strategies.
- Maintain liquidity to meet unanticipated operating requirements.
- Maintain overall portfolio volatility within acceptable risk levels.

# CHARACTERISTICS AND RANGES

	Exposure	Characteristics	Ranges
SHORT TERM	<b>Fixed Income</b>	<i>Capital preservation, income</i>	<b>100%</b>
	<b>Fixed Income</b>	<i>Capital preservation, income</i>	<b>50% - 80%</b>
LONG TERM	<b>Equity</b>	<i>Growth, inflation hedge (moderate)</i>	<b>15% - 35%</b>
	<b>Tactical</b>	<i>Less correlated assets lacking the typical characteristics of fixed income or equity</i>	<b>5% - 15%</b>

# RISK VERSUS RETURN

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# WHAT ARE RETURNS?

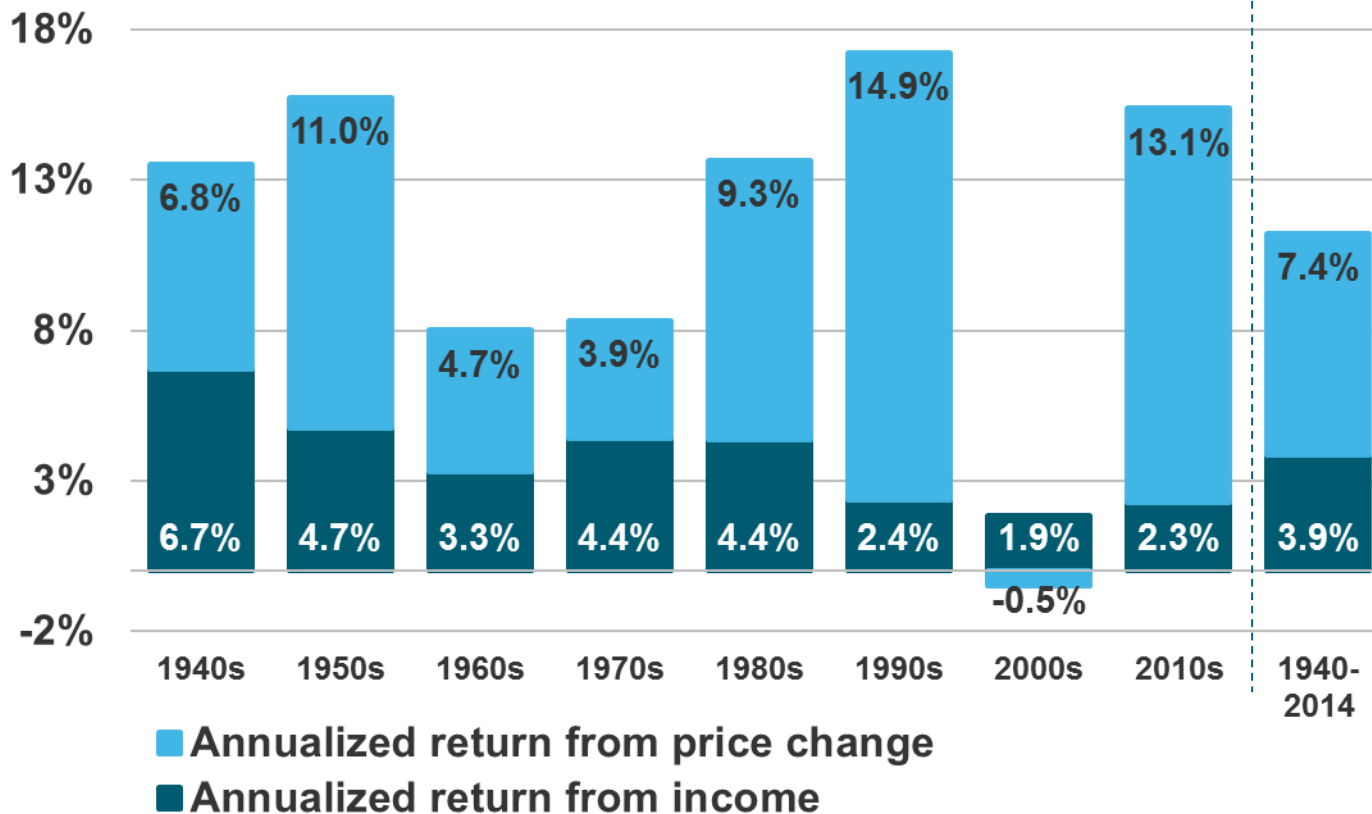
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$$\text{Returns} = \underbrace{\text{Income}}_{\text{More Predictable}} + \underbrace{\text{Price Changes}}_{\text{Less Predictable}}$$

Fixed income and equities have elements of both but the impact is different.

# EQUITY: PRICE CHANGE DRIVES RETURNS

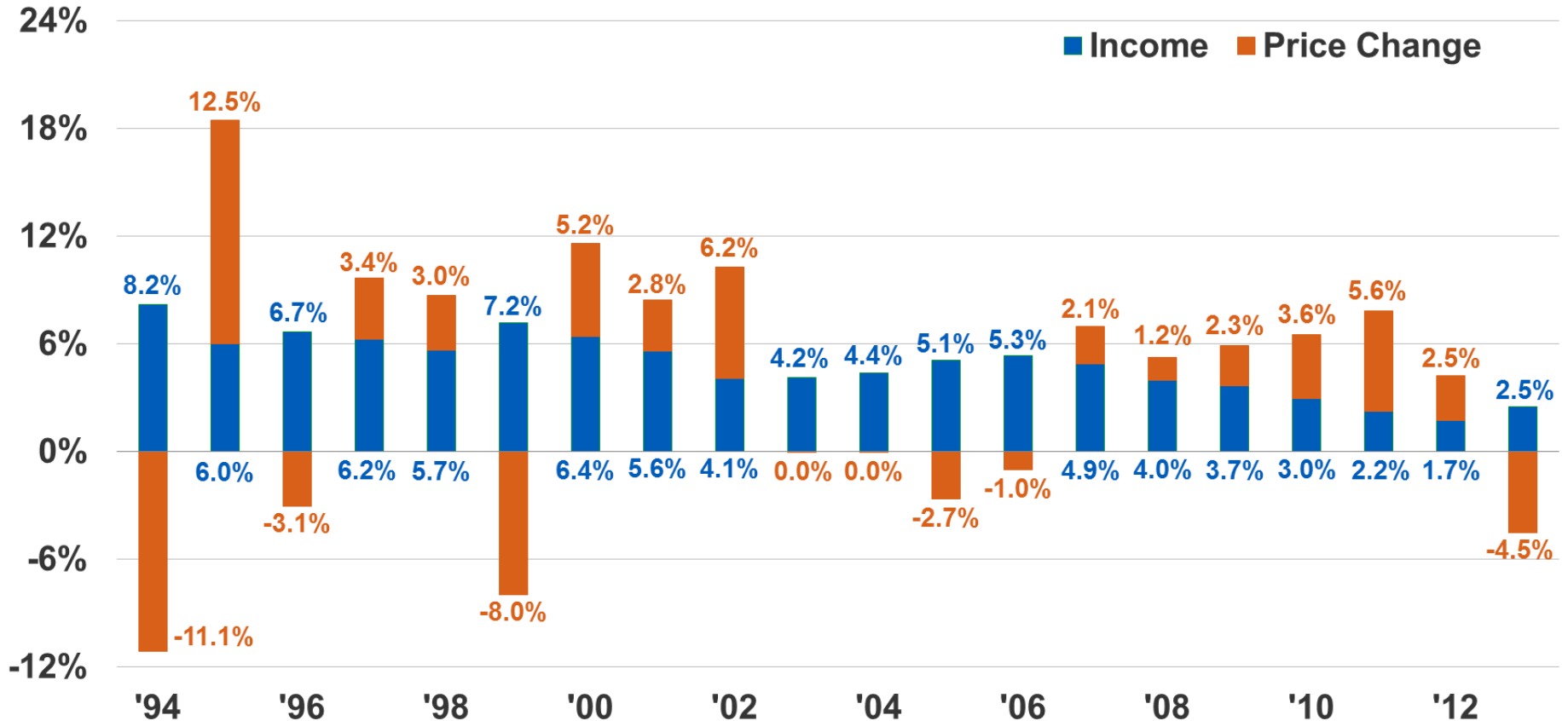
*Equity income (dividends) have been a less significant component of total return*



Source: Bloomberg, PIMCO



# FIXED INCOME: INCOME DRIVES RETURNS



Source: Barclays US Aggregate, PIMCO

# DIVERSIFICATION: WHY IT MATTERS

Key Driver	Equities	Fixed Income	Tactical
Economic growth ↑	+	-	+
Interest rates ↑	-	-	+/-
Inflation ↑	-	-	+

# 2

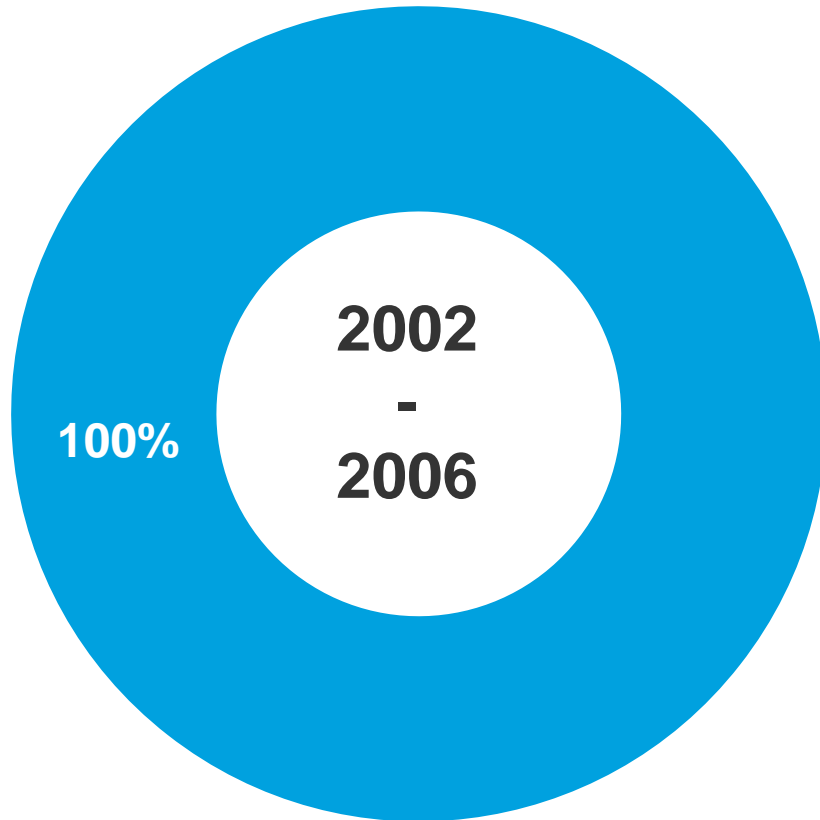
## EVOLUTION OF THE INVESTMENTS PORTFOLIO

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**As of 31 October 2015**

# INVESTMENT PORTFOLIO EVOLUTION

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**Context:** Limited information on time horizon

**Action:** Invested in very conservative, short-term fixed income

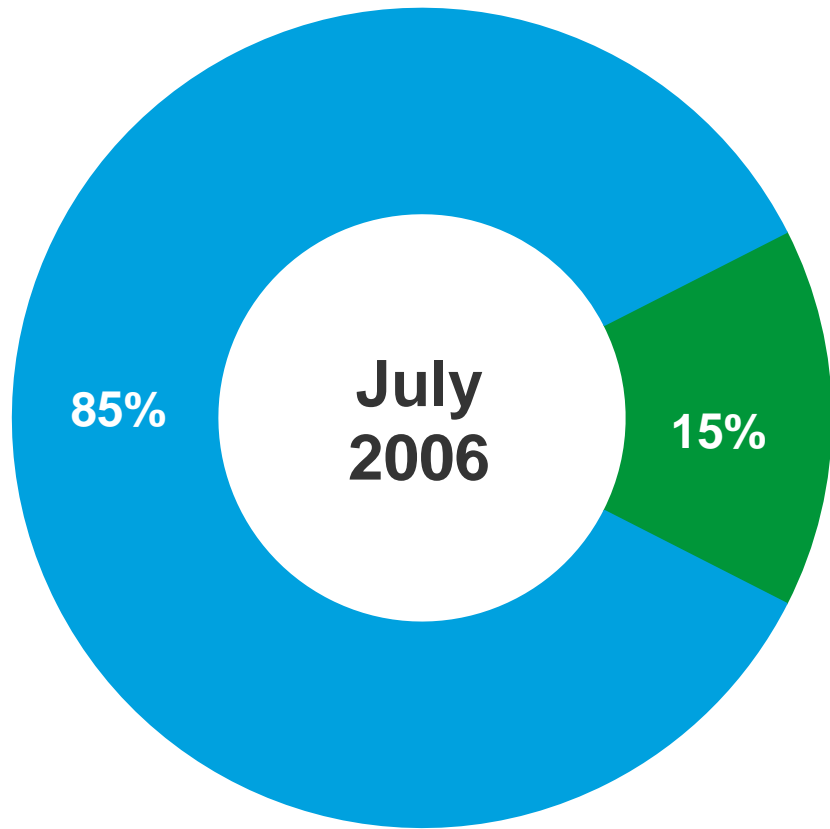
 Fixed Income

 Equities

 Tactical

# INVESTMENT PORTFOLIO EVOLUTION

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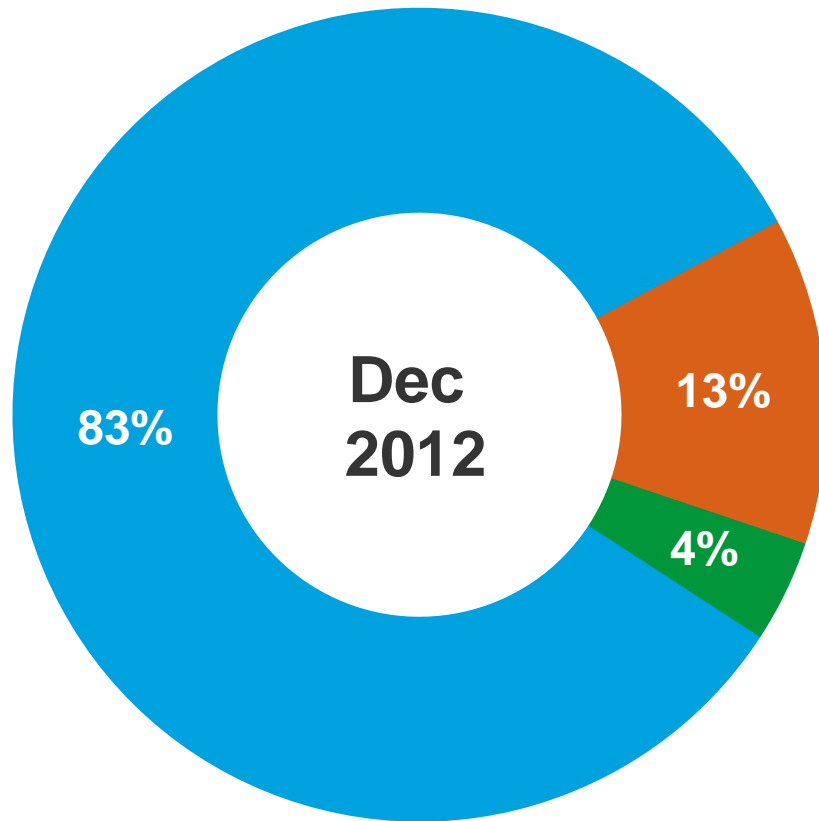
**Context:** Time horizon of Gavi expanded with launch of IFFIm

**Action:** Added inflation hedge assets, and later emerging markets exposure (2011)



# INVESTMENT PORTFOLIO EVOLUTION

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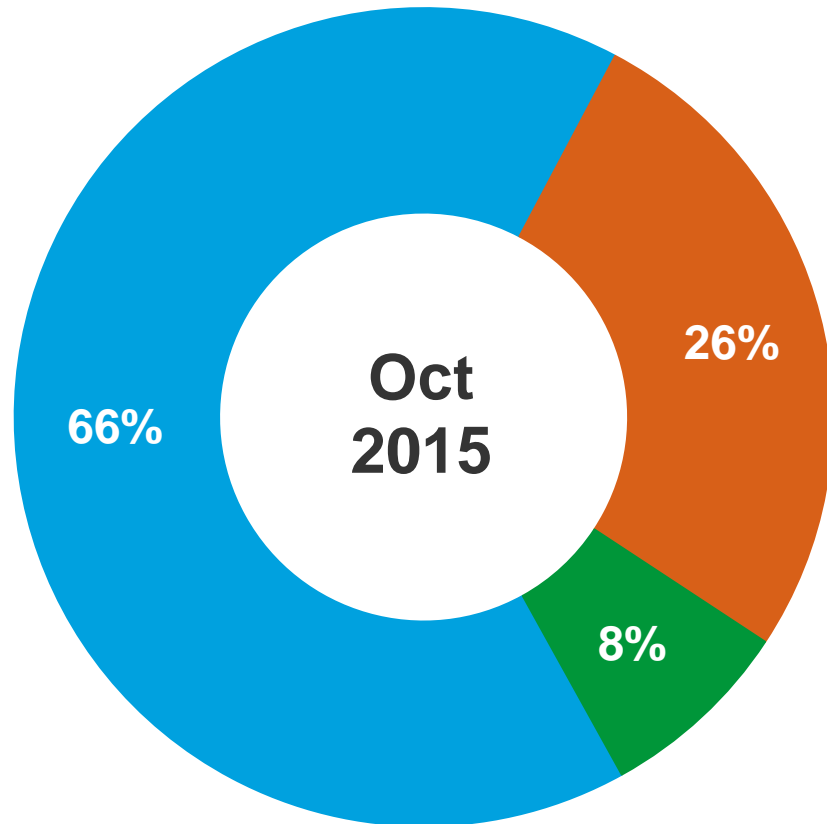


**Context:** Improvements in forecasting and Board approval to diversify (2011)

**Action:** Added growth-oriented assets such as equities



# INVESTMENT PORTFOLIO EVOLUTION



Fixed Income

Equities

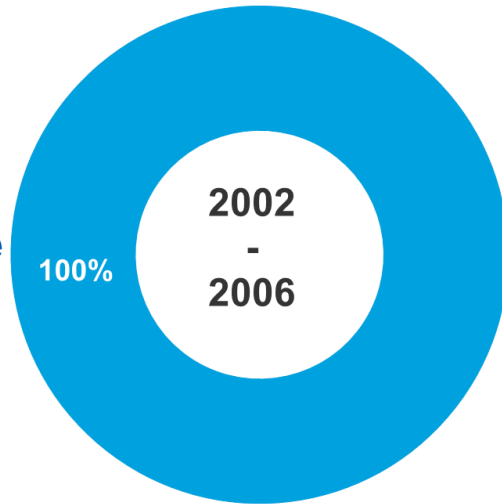
Tactical

**Context:** Continued improvements in forecasting and high donor confidence in GAVI

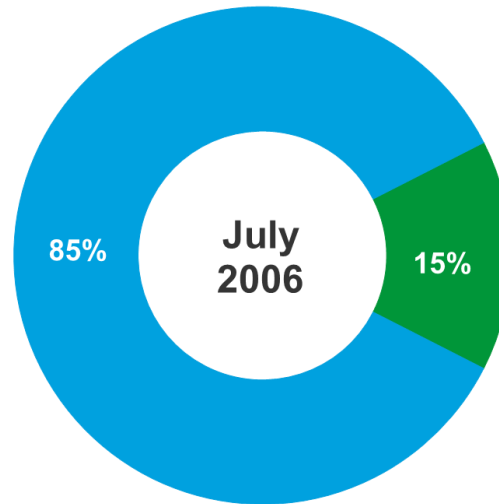
**Action:** Further diversification in less correlated assets.

# RECAP: INVESTMENT PORTFOLIO EVOLUTION

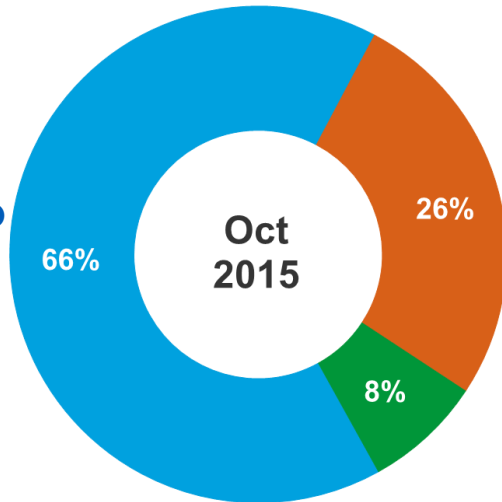
(1) Conservative, US centric, short-term fixed income



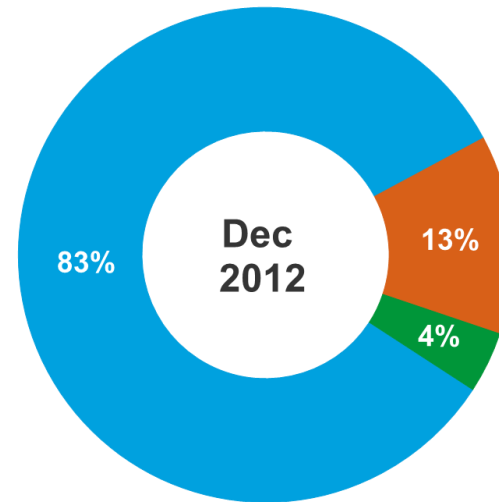
(2) Launch of IFFIm extended investment horizon; added inflation hedge assets



(4) Further diversification into less correlated assets



(3) Added growth-oriented assets such as equities





# 3

## CONCEPTS: WHERE ARE WE NOW?

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# RISK MANAGEMENT PROCESSES

Activity	Ongoing	Monthly	Quarterly	Semi-Annually	Annually	Risk-Based
Market Analysis	●					
Manager Communication	●					
Performance Review		●	●			
Money Mkt. Monitoring			●			
Compliance Certification			●			
Form ADV Review				●		
SRI Screening				●		
ASC-820 Valuation					●	
Due Diligence Visits						● <sup>1</sup>
Audited Statements Review					●	
Controls Review					●	

<sup>1</sup> Frequency of on-site visit may be annual or bi-annual depends on risks.

# ASSET ALLOCATION: WHAT TO CONSIDER

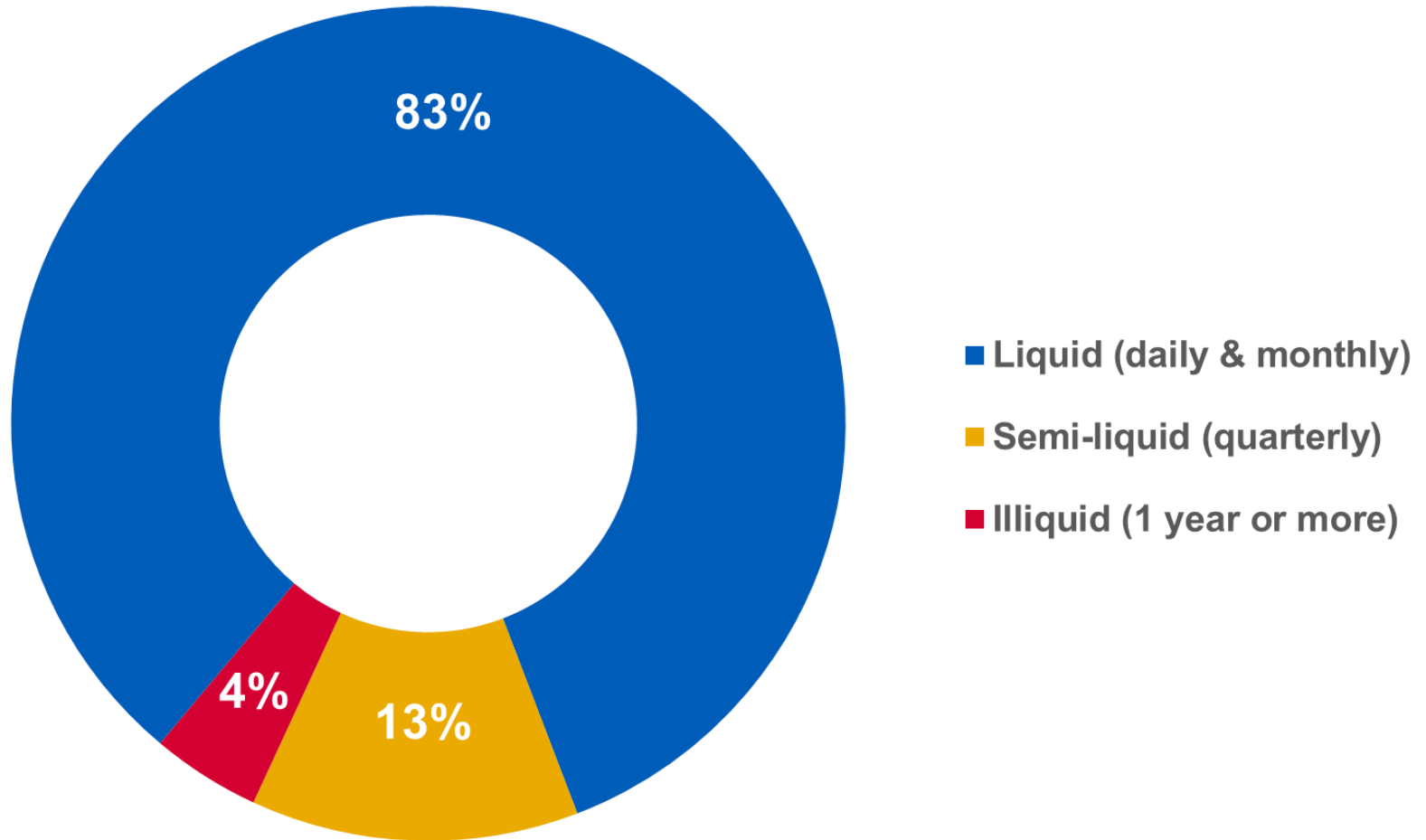
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In assessing an appropriate mix of investments, the investment office with the guidance of the Investment Committee and a strategic consultant considers the following:

- **Appetite for volatility/risk**
- **Balancing liquidity of investments**
- **Frequency and size of drawdowns (to pay liabilities)**
- **Diversification (adding investments that will behave differently under various economic scenarios)**

# LONG-TERM PORTFOLIO LIQUIDITY

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# ASSET ALLOCATION UPDATE

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**STRATEGIC ASSET ALLOCATION REVIEW:** following an extensive RFP process and the hiring of a new strategic consultant, the Investment Committee discussed asset allocation at November meeting.

- Reviewed three scenarios for improving risk-reward ratio and asked for further refinement of the most conservative option.
- Agreed with recommendation to add more absolute return and market neutral strategies (e.g., less market directional style of investing) given we are in the late stage of a market cycle.
- Agreed with recommendation to add a multi-exposure category for strategies that invest across exposures; Gavi already has such investments.

**THANK YOU**

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