



GAVI Alliance Investment Committee Meeting

18 March 2011

Teleconference

FINAL MINUTES

1. Chair's report

Finding a quorum of members present, the meeting commenced at 10.03 Washington time on 18 March 2011. George W. Wellde, Jr, Investment Committee Chair chaired the meeting.

Standing declarations of interest were tabled to the Committee (Doc #1a in the Committee pack).

The Committee reviewed the minutes of its meeting on 11 November 2010, noting that they were approved by unanimous consent on 10 December 2010 (Doc #1b). The Chair referred to several matters listed on its action sheet, including that the Committee had noted the Secretariat's intention to hire two new investment managers and that the Secretariat would update the Committee on manager compliance with the Socially Responsible Investment (SRI) policy (Doc #1c).

2. Manager report: Bridgewater

Seth Birnbaum, Katie Allen, and Brian Lawlor from Bridgewater Associates delivered a presentation on risk parity strategies (Doc #2). As part of their presentation, they reviewed their firm's history, discussed the "building blocks" of a portfolio's return, analysed GAVI's portfolio in comparison to U.S. institutional portfolio risk, and discussed ways in which some institutions balance risk across economic environments.

- GAVI continues to have a balanced, diversified portfolio that is risk averse and which emphasizes capital preservation. However, this diversification exists within only a select number of asset classes.
- Exposure only to conservative asset classes could cause the portfolio to suffer during periods of high inflation. Some members believe that additional asset classes exist that would meaningfully increase returns while increasing portfolio risk only nominally.

- On the other hand, GAVI's donors have consistently signalled that their risk appetite for the portfolio is fairly low. Certain capital appreciation strategies, though potentially low risk compared to more aggressive strategies, may still give some donors pause. However, donor views are not uniform and presentations such as this one could provide an avenue to showing how to increase stability and lessen risk whilst generating returns in a variety of economic environments.

3. Portfolio overview

Jeanne Shen, Senior Director of Investments provided an overview of the portfolio, highlighting asset allocation, net returns, peer comparisons, contribution to mission, risk monitoring, and sector comparisons (Doc #3). She also updated the Committee on those managers previously reported to have slightly breached the 2% SRI screens on certain investments (see Section 3 of the 11 November 2010 Committee minutes), highlighting that one manager had been in breach over two periods.

Barry Greene, MD, Finance and Operations, reported on the Committee's request for information on the World Bank's investment guidelines and risk management practices (see Section 3 of the 11 November 2010 Committee minutes), and in particular, two tranches of investments that may be appropriate for GAVI's long term portfolio objectives.

- Peer comparisons (in this case, to endowments and foundations) are difficult because peers tend to be in relatively more aggressive investments than GAVI. As such, it is unsurprising that, given the general market downturn in 2008, GAVI's portfolio would outperform its peers over three years but underperform over five or ten years.
- One of the two new managers has exposure to Asian markets. As such, the Committee queried whether recent events in Japan had substantially increased portfolio risk. It was reported that the investment did not have a great deal of Japanese exposure but that the manager was closely monitoring payments on its Egyptian government bonds given the political unrest there.
- The Committee analysed the reasons that one manager remained in breach of the SRI screen. The Secretariat thought that the breach was a transitory situation and so was not recommending liquidation until December 2010 numbers were submitted and analysed. The Committee noted the Secretariat's recommendation not to instruct the investment manager to liquidate the investment immediately but, given the reputational risks to GAVI, the investment manager needed to comply with the SRI policy as soon as possible or else liquidate the investment. The Secretariat will follow up with the manager in the next two weeks.
- The Committee reviewed the strategies of the two World Bank investment tranches and their performance in relation to GAVI's short duration and long term portfolios. It was clear that GAVI's long term portfolio had the potential to

provide better returns over the long term but the question remained as to the appetite for mitigating potential losses in the short term in a time when GAVI may choose to draw down on the portfolio to fund programmes. There is also comfort from some donors to use the World Bank given low risk and stability. On the other hand, the portfolio was constructed to take some risk and it is possible some appreciation has been lost over time given the portfolio's highly conservative strategy. The Committee will continue to keep these tranches in mind and will review from time to time the potential for an investment via the World Bank.

4. Revision to the Cash Investment Policy

Ms Shen requested guidance on a potential revision to the Cash Investment Policy (Doc #4). After review of the cash forecast, she commented that GAVI's liquidity needs do not require that all funds be invested in vehicles that provide daily liquidity. Therefore, some stratification of the cash pool will allow for additional yield with very limited risk.

- The Committee felt the recommendation was sensible given the cash forecasting. The revised policy is not intended to be more aggressive with cash investments, but given that daily liquidity of all cash investments is not necessary, it is appropriate to consider cash investments that may provide some additional return.
- With the Committee's agreement, the Secretariat Investment Team will further consult the Secretariat Executive Team regarding the intent to change the Cash Investment Policy. Subsequently, the Investment Team will draft the revision for the Investment Committee to review and, if thought fit, recommend to the Board.

5. Revision to the Asset Allocation

Ms Shen requested guidance regarding a potential change to the asset allocation to include the investment objective of capital appreciation, in addition to the existing objectives of capital preservation and inflation protection (Doc #5). As previously discussed, she posited that the portfolio should be balanced to take advantage of a rising growth scenario. She presented several potential asset mixes that would provide the potential for greater return but were still not as aggressive a mix as typically followed by a US-based institutional endowment. As expected, though the new asset classes would allow for potential additional returns, the addition of capital appreciation as an investment objective would also result in increased volatility in the investment portfolio and increased due diligence requirements.

- The proposal would be the most significant change to the portfolio since 2006 (when the GAVI Fund managed the portfolio). It was also noted that the

current Investment Team may not yet have the capacity to manage the increased due diligence requirements.

- As such, Committee members decided to begin a consultation process with their own constituencies, the new Chair, and the new CEO before forming an opinion and making a recommendation to the Board. The Committee requested the Secretariat and Angeles Investment Advisors to work together to provide a short, crisp presentation of the benefits and risks of a potential change that the Committee members could consider at the next meeting and use to consult other Board members and constituencies. They should also use Bridgewater's risk parity guidance to inform the presentation.

The Committee moved into executive session at 12.40, inviting Mr. Greene and Kevin Klock, Assistant Secretary, to attend. Subsequently, there being no further business, the meeting was brought to a close.

Mr Kevin A. Klock
Assistant Secretary

Attachment A

Participants

Committee Members

- George W. Wellde, Jr, Chair
- Dwight Bush
- Abigail Robinson

Secretariat

- Debbie Adams (Items 1-4)
- Edmund Fudzie
- Barry Greene
- Kevin A. Klock
- Jeanne Shen

Guests

- Katie Allen, Bridgewater Associates (Item 2)
- Seth Birnbaum, Bridgewater Associates (Item 2)
- Brian Lawlor, Bridgewater Associates (Item 2)
- Shana Mulkerin, Angeles Investment Advisors
- Michael Rosen, Angeles Investment Advisors