

# Investment Committee Chair Report

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BOARD MEETING

**Stephen Zinser**

6-7 June 2018, Geneva, Switzerland



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# Market Sentiment: Mixed

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**Volatility beginning to normalize:** Both fixed income and equity markets shook off the low volatility regime of recent years.

**Synchronized global growth continues for now:** Ten years after the 2008 financial crisis, the US economy finally satisfied the Federal Reserve's twin mandates of low unemployment and moderate inflation.

**Geopolitical risk rising:** Political risk plays a more prominent role in investors' risk assessment compared to prior years.

# Market Commentary

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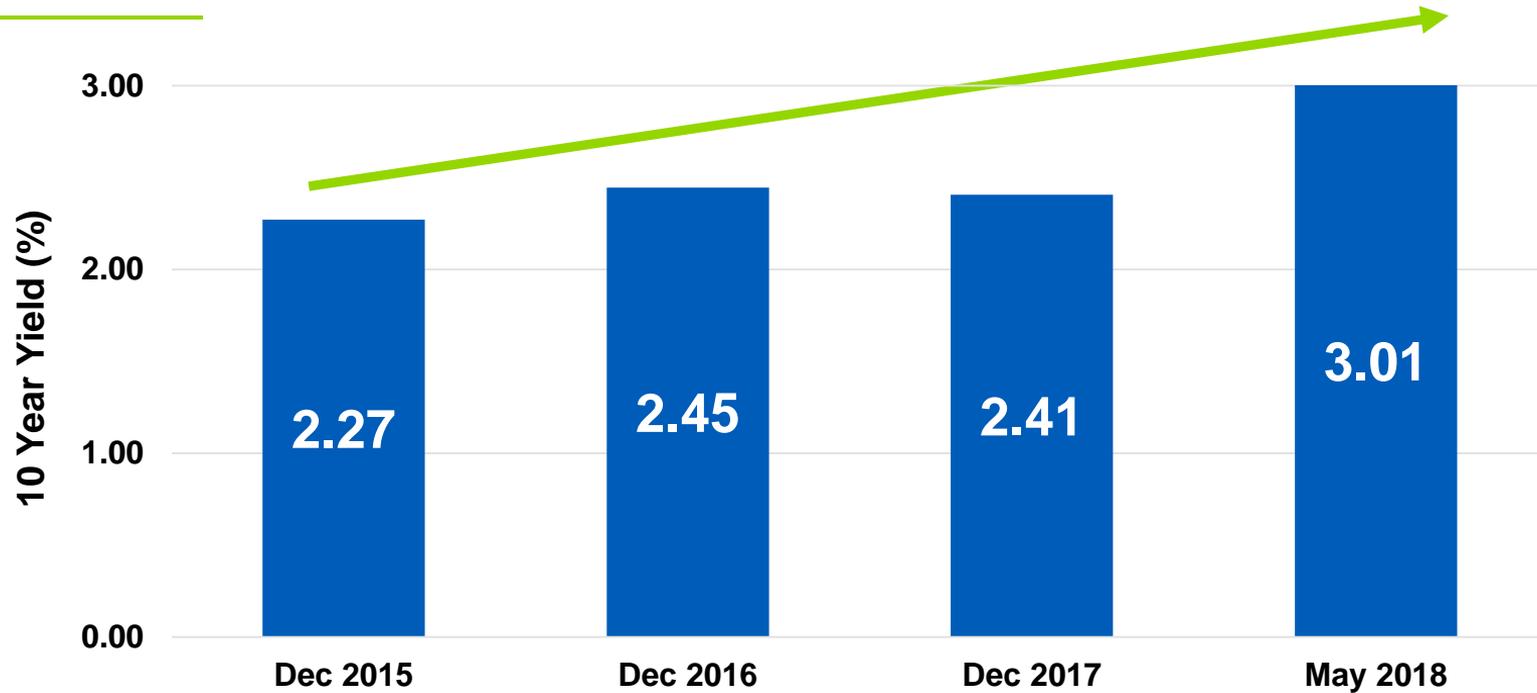
**Equity markets:** Overall the picture is mixed with particular weakness in emerging markets. US and European markets have modest gains year-to-date.

**Fixed income:** Most fixed income returns are negative year-to-date. Increases in yields and spread widening contributed to poor performance. US investment grade bonds suffered their worst performance in 20+ years.

**Currencies:** US dollar resumed its weak trend in 1Q, continuing its trajectory from 2017, but reversed in April and May.

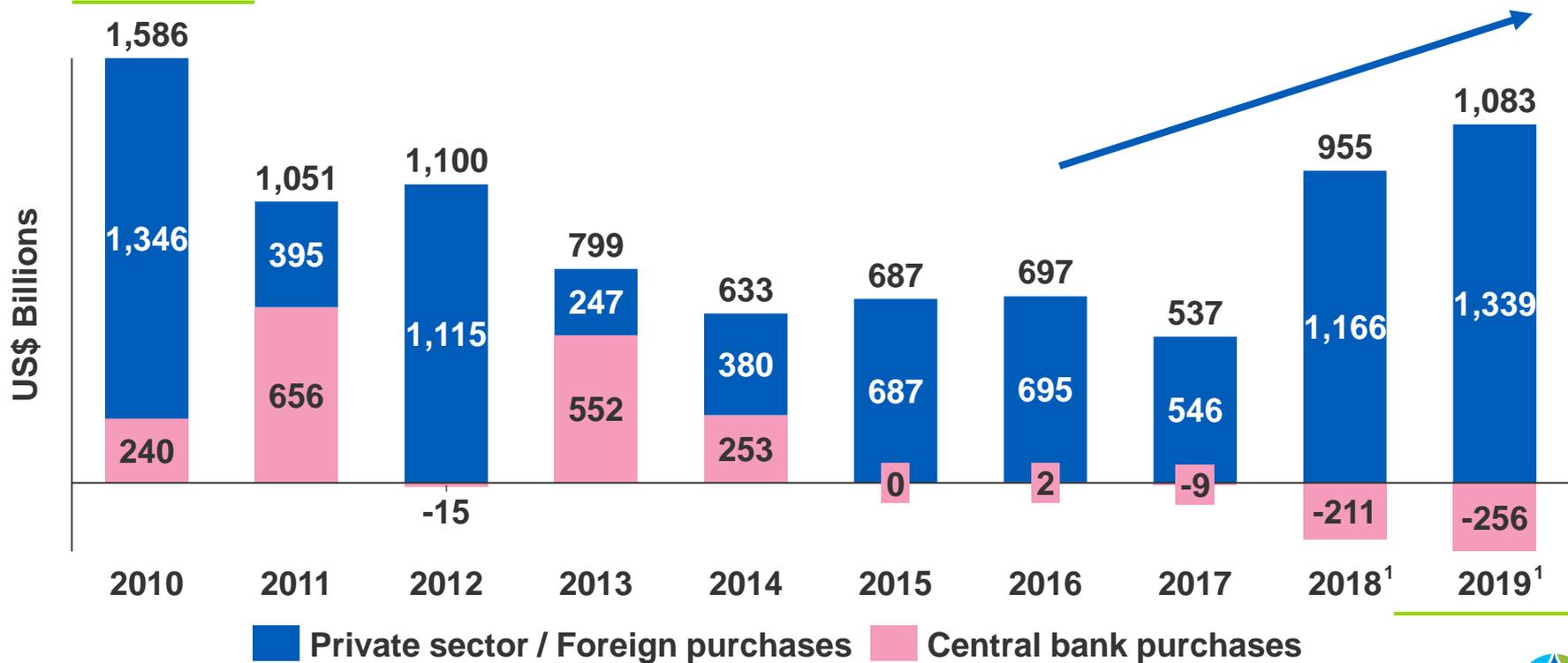
**Commodities:** Declines in oil output from strife ridden countries and self-imposed OPEC limitations led to higher oil prices.

# 10-year US Treasury yields

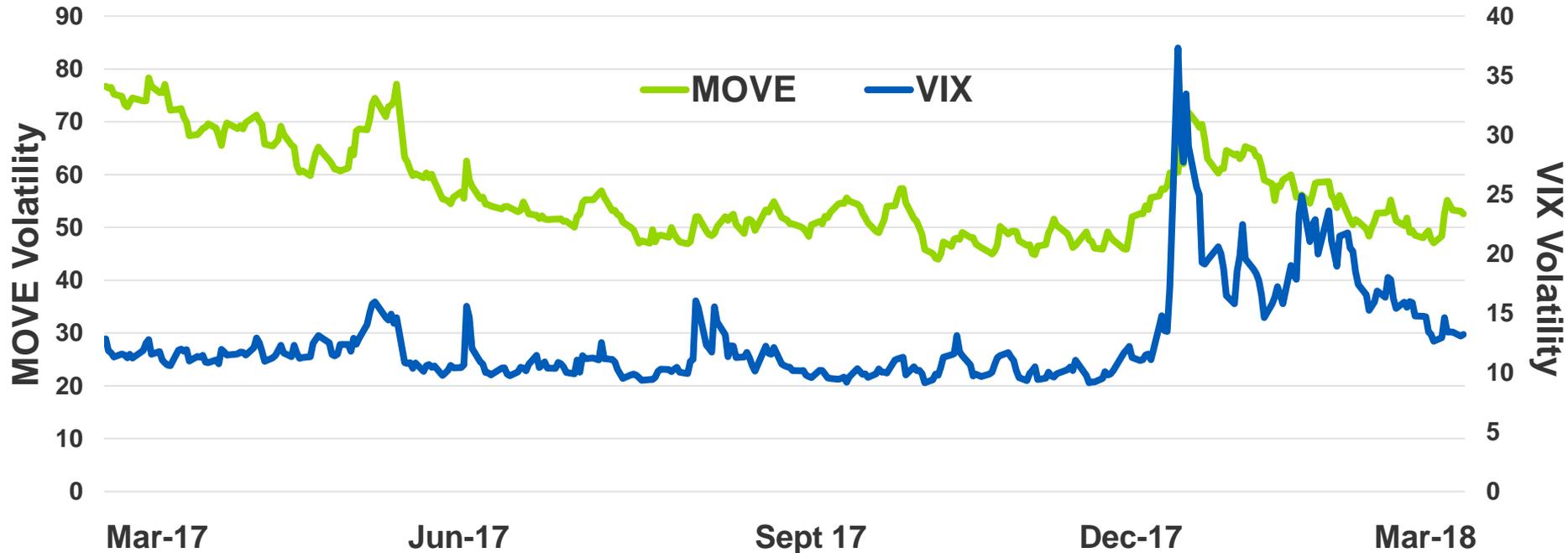


Data as of 23 May 2018  
Source: Bloomberg

# Demand/Supply of US Treasuries



# Fixed Income and Equity Volatility

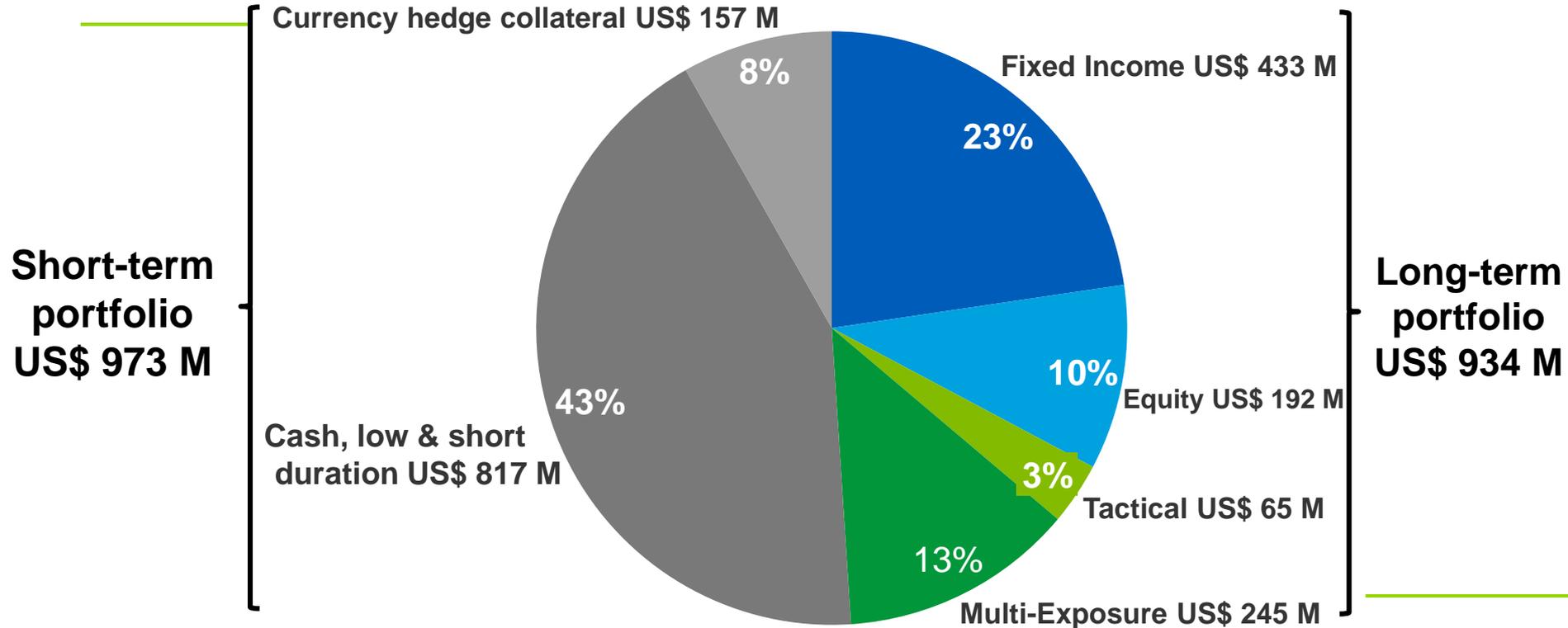


Data as of 22 May 2018  
Source: Bloomberg

# Portfolio Objectives

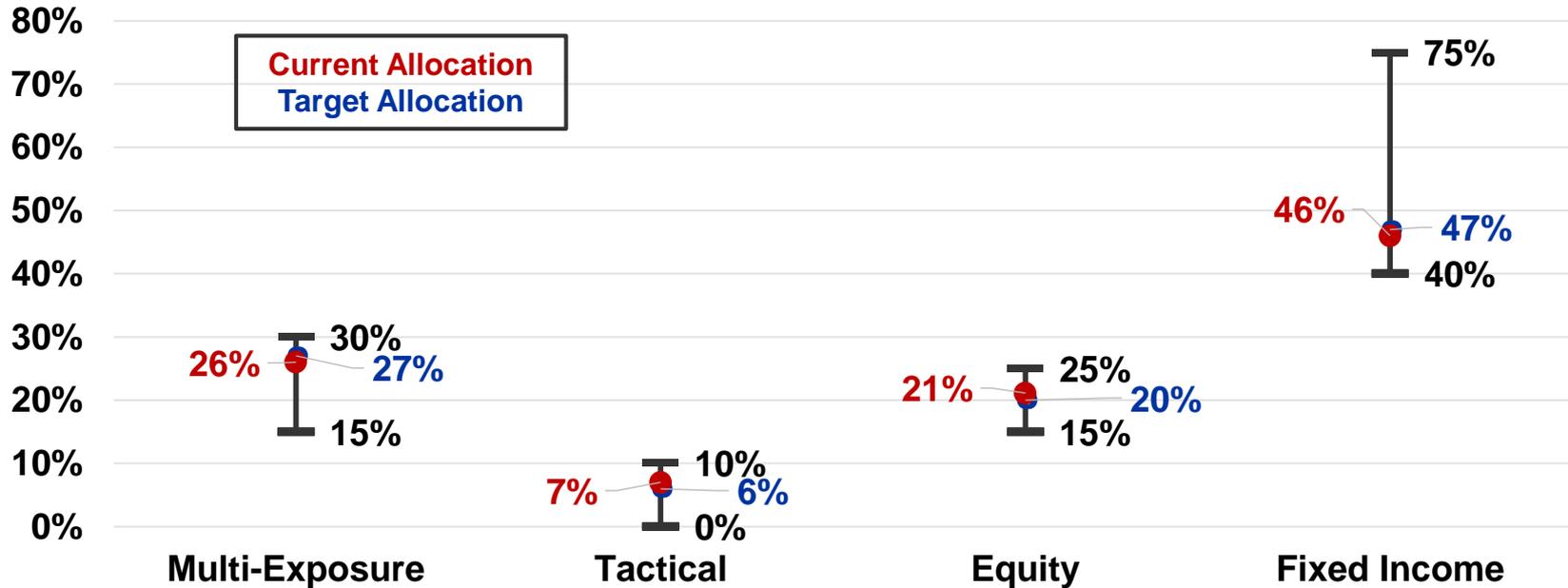
Short-term	Long-term
<ul style="list-style-type: none"><li>• Maintain <b>liquidity</b> to meet anticipated operating requirements.</li><li>• Provide for <b>prudent diversification</b> of investments to minimise credit and market risk exposure.</li><li>• Generate income.</li></ul>	<ul style="list-style-type: none"><li>• Generate a <b>positive real (after inflation) return</b>.</li><li>• Generate income for current spending.</li><li>• Provide a prudent degree of <b>growth</b> in assets to support future spending.</li><li>• Provide for <b>prudent diversification</b> of investments to minimise correlation among investment strategies.</li><li>• Maintain liquidity to meet unanticipated operating requirements.</li><li>• Maintain overall portfolio volatility within acceptable risk levels.</li></ul>

# Gavi Portfolio Allocation (US\$ 1.9 B)<sup>1</sup>



8 Data as of 30 April 2018  
<sup>1</sup> Excludes UNICEF Procurement account of US\$ 684 M, IFFIm assets, and US\$ 155 M in operating cash

# Long-Term Portfolio (Without Cash): Asset Allocation Ranges



Data as of 30 April 2018

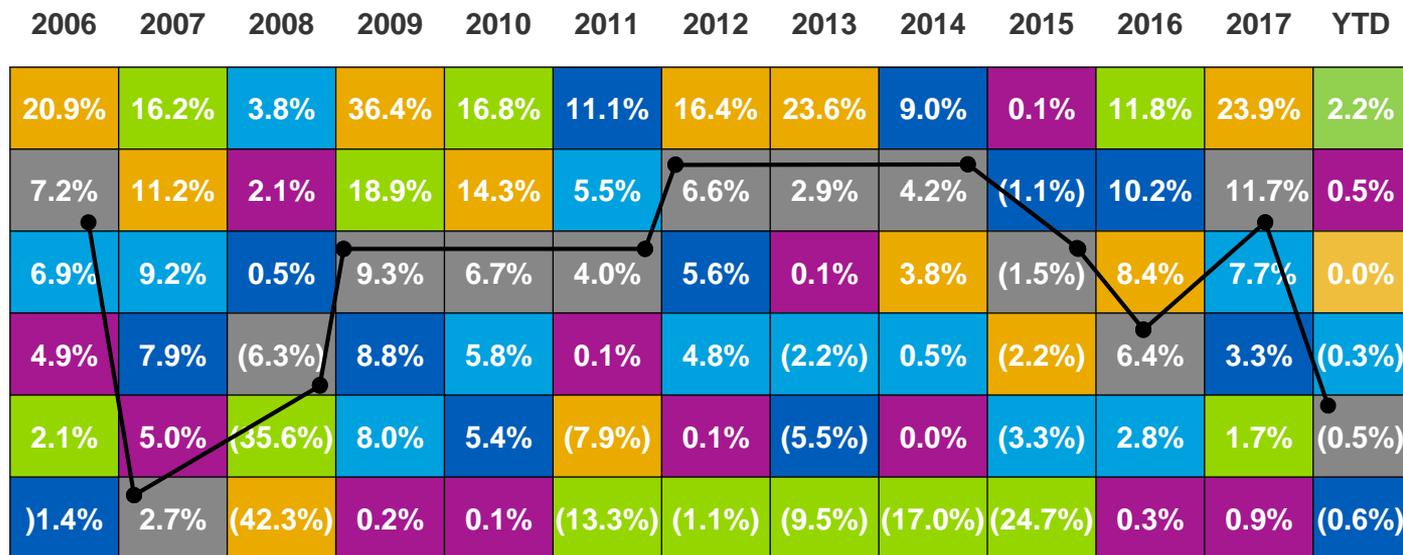
# Portfolio Net Returns

The total portfolio generated estimated year-to-date net investment income of US\$ 0.8 Million, and since inception, US\$ 550.8 Million.

Portfolio returns	2012	2013	2014	2015	2016	2017	YTD
Long-term portfolio	6.6%	2.9%	4.2%	(1.5%)	6.4%	11.7%	(0.5%)
Short-term portfolio	0.9%	0.4%	0.2%	0.4%	0.9%	1.0%	0.1%

Data as of 30 April 2018  
Source: internal estimates, short-term portfolio figures based on strategies managed by the Investments team

# Comparison of Indices Returns



Data as of 30 April 2018  
Source: Bloomberg, internal estimates

# Long-Term Portfolio Returns

Exposure vs. Benchmark	2013	2014	2015	2016	2017	YTD
<b>Fixed Income</b>	<b>0.8%</b>	<b>3.4%</b>	<b>0.9%</b>	<b>6.0%</b>	<b>6.5%</b>	<b>(0.5%)</b>
<i>Barclays Multiverse<sup>1</sup></i>	<i>(1.0%)</i>	<i>(0.6%)</i>	<i>(3.3%)</i>	<i>2.8%</i>	<i>7.7%</i>	<i>(0.3%)</i>
<b>Equity</b>	<b>25.2%</b>	<b>6.4%</b>	<b>(1.7%)</b>	<b>6.4%</b>	<b>25.3%</b>	<b>(0.8%)</b>
<i>MSCI ACWI IMI</i>	<i>23.6%</i>	<i>3.8%</i>	<i>(2.2%)</i>	<i>8.4%</i>	<i>24.0%</i>	<i>0.0%</i>
<b>Tactical</b>	<b>--</b>	<b>5.4%<sup>3</sup></b>	<b>(10.3%)</b>	<b>16.0%</b>	<b>12.3%</b>	<b>(0.1%)</b>
<i>BofA Merrill US 1-Year Treasury<sup>2</sup></i>	<i>--</i>	<i>0.6%</i>	<i>0.2%</i>	<i>0.8%</i>	<i>0.6%</i>	<i>0.3%</i>
<b>Multi-exposure</b>	<b>(0.7%)</b>	<b>4.4%</b>	<b>(4.3%)</b>	<b>4.7%</b>	<b>14.7%</b>	<b>0.3%</b>
<i>BofA Merrill US 3-Month Treasury + 5%<sup>4</sup></i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>5.9%</i>	<i>2.1%</i>
<b>Long-term portfolio</b>	<b>2.9%</b>	<b>4.2%</b>	<b>(1.6%)</b>	<b>6.4%</b>	<b>11.7%</b>	<b>(0.5%)</b>

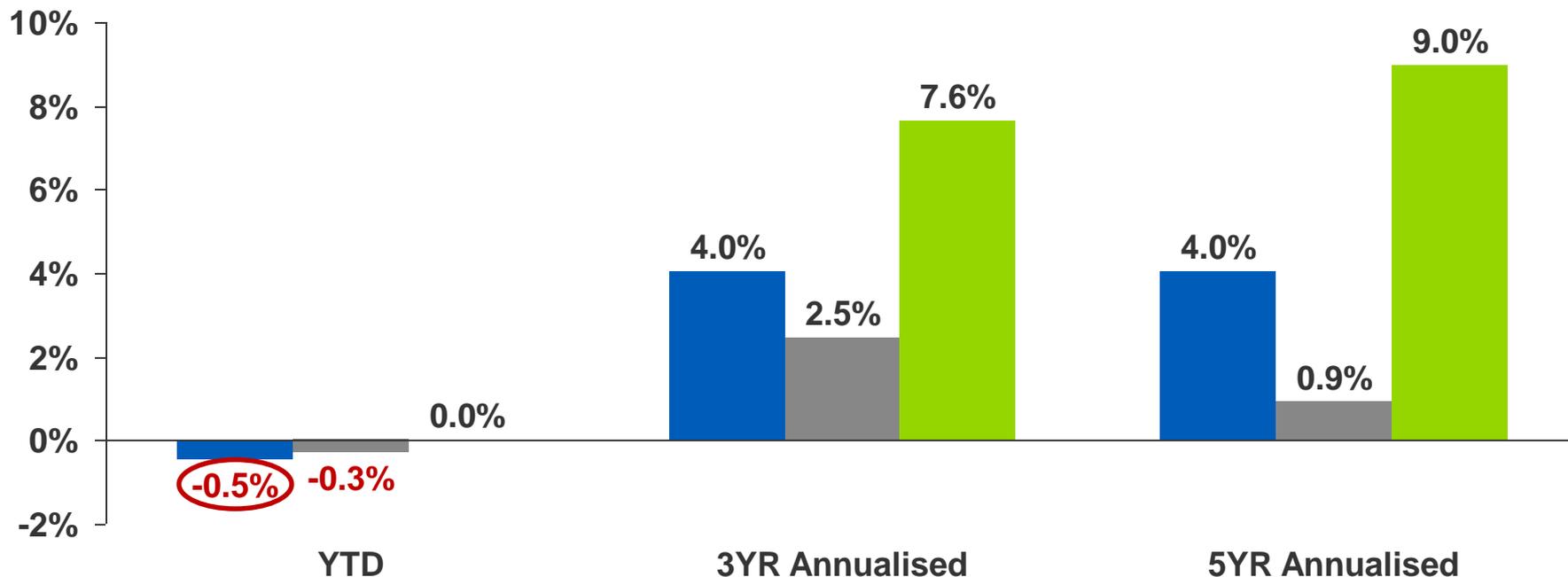
(1) From 1 March 2014 to present

(2) From 1 October 2014

(3) Inception date 30 May 2014

(4) Benchmark not implemented until March 2016

# Long-term Portfolio Performance



Data as of 30 April 2018

Source: Bloomberg, internal estimates

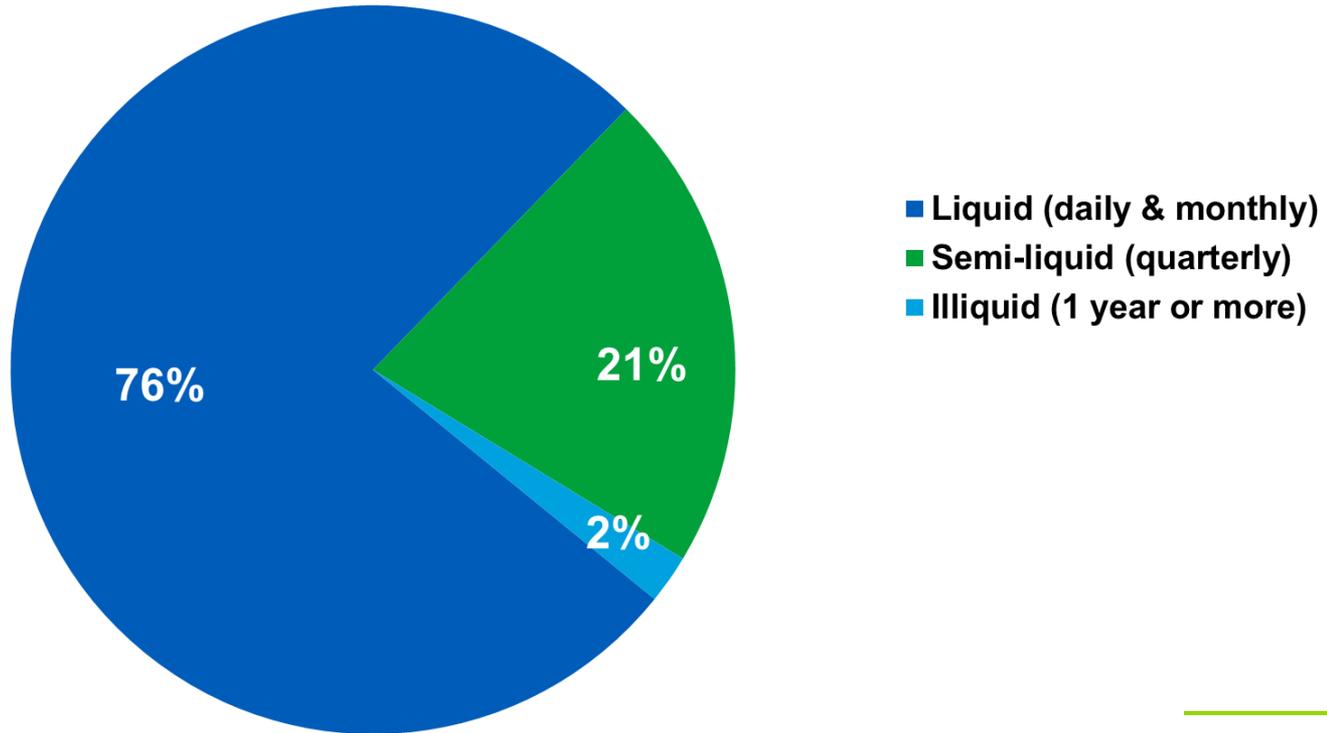
(1) Barclays Multiverse is a broad, global fixed income index.

(2) MSCI ACWI is a broad, global equity index.

 **Gavi**  **Barclays Multiverse<sup>1</sup>**  **Global Equities<sup>2</sup>**

# Long-term Portfolio Liquidity

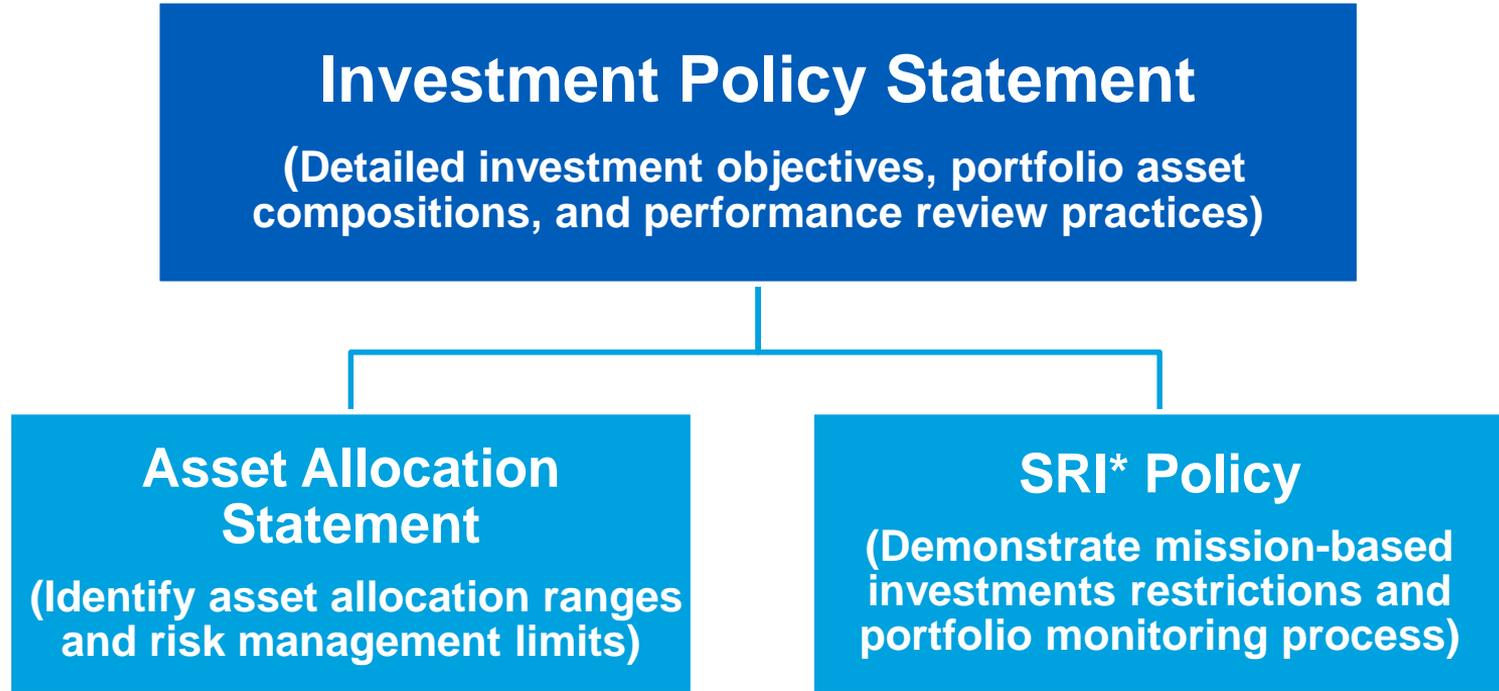
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Data as of 30 April 2018

# Investment Management Governance

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\*Socially Responsible Investment

# Background: Investment Policy Review

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- **In November 2017 the Gavi Alliance Board discussed extending the liquidity limits for a portion of the long-term portfolio.**
- **In February 2018 the Investment Committee reviewed an updated asset allocation study that included less liquid assets such as private debt.**
- **The Investment Committee agreed on an allocation of up to 10% to private debt as consistent with Gavi Alliance's risk profile.**

# Outcome: Investment Policy Review

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- **In order to accommodate the inclusion of less liquid assets, the Committee reviewed updated drafts of the Investment Policy Statement and the Asset Allocation Statement.**
- **The amendments would not result in any changes to the investment objectives, management structure or overall portfolio composition of the long-term portfolio.**
- **The Committee approved the amendments at its May meeting.**

# Key Highlights 1H2018

## Portfolio Volatility

The Committee continues to add less-directional and lowly correlated strategies that should help dampen volatility, and terminate or reduce exposure to directional strategies.

**Update:** Certain relative value fixed income strategies turned in positive performance, bucking the negative performance of the broader fixed income market. The Committee continues to review strategies that offer diversification.

## Investment Policy Statement

In light of the November 2017 Board discussion around extending the liquidity profile of a portion of the long-term portfolio, the Committee reviewed asset allocation studies that included assets with higher return potential and medium-term lock-ups.

**Update:** The Investment Committee reviewed the Investment Policy Statement and approved it with modest edits and clarification of language. The Policy will come into force subject to no objections from the Board.

## SRI Screening

The Committee reviewed semi-annual SRI results in May and did not terminate any managers.

**Update:** It approved a new Environmental/Social/Governance (“ESG”) passive index fund in light of the gun control debate in the US to manage reputational risk.

# Key Priorities 2H2018

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## Maintain Focus On Limiting Volatility

The Committee continues to take steps to modulate volatility, and ensure managers are fit for each respective strategy bucket. Volatility may well present new opportunities at a later date.

## Foster Sustainable Investment Practices

The Committee joined an investor network run by Ceres, a sustainability non-profit, as a means to collectively engage in and advocate for a broad range of sustainability issues, including climate change.

## Portfolio vendors

The Committee relies on Sustainalytics, one of the top global service providers for SRI screening. Per Gavi Alliance's procurement rules, the Investments team will need to issue an RFP by year-end.

THANK YOU

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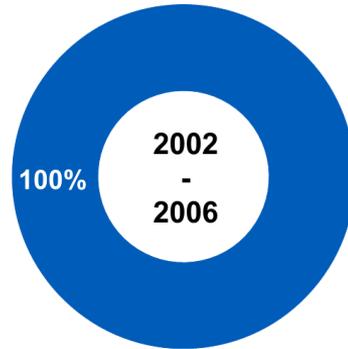
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# Appendix

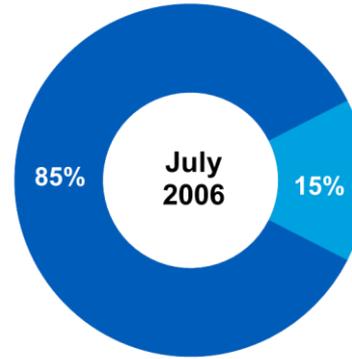
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# Long-term Portfolio Evolution

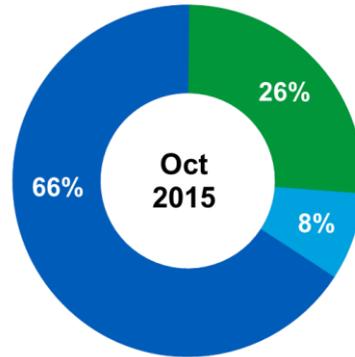
(1) Conservative, US centric, short-term fixed income



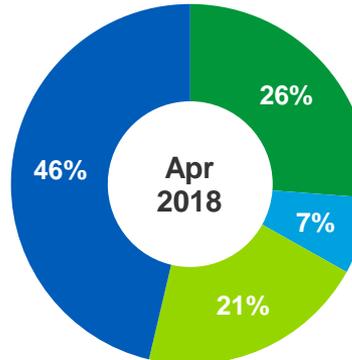
(2) Launch of IFFIm extended investment horizon; added inflation hedge assets



(3) Further diversification into less correlated assets



(4) Added multi-exposure in May 2016.



Board meeting  
6-7 June 2018

# Exposure Characteristics

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<b>Characteristics</b>	
<b>Fixed Income (40% - 75%)</b>	<b>Capital preservation, income</b>
<b>Equity (15% - 25%)</b>	<b>Growth, inflation hedge (moderate)</b>
<b>Tactical (0% - 10%)</b>	<b>Less correlated assets lacking the typical characteristics of fixed income or equity</b>
<b>Multi-exposure (15%-30%)</b>	<b>Liquid, flexible, and risk diversified strategies</b>

# Asset Allocation: What To Consider

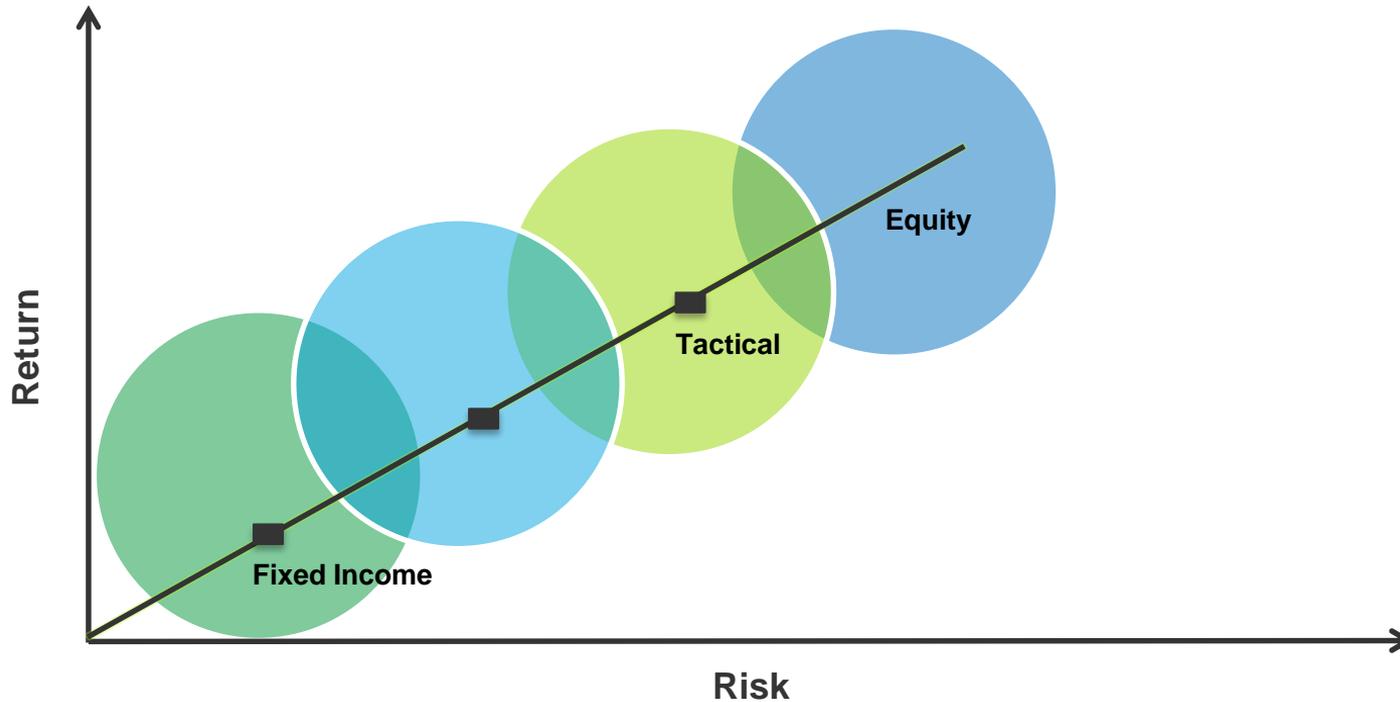
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**In assessing an appropriate mix of investments, the Investments team with the guidance of the Investment Committee and a strategic consultant considers the following:**

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

# Risk Versus Return

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# Fixed Income

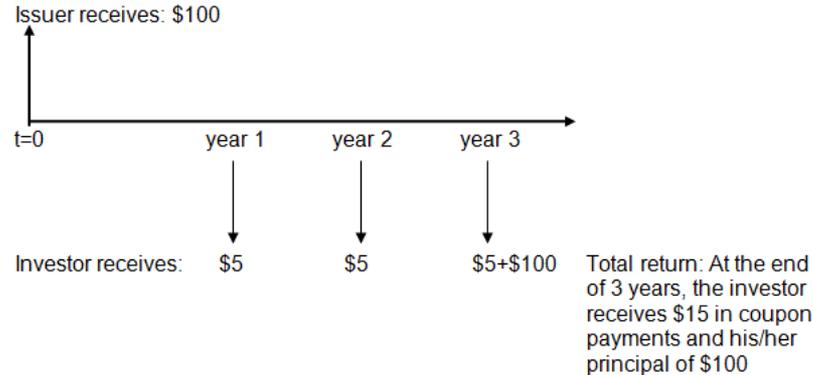
## Definition:

A financial obligation from an issuer (e.g. a government) to the investor which typically includes:

1. Periodic interest (coupon) payments
2. Repayment of principal at maturity

- **Example:**

**US\$ 100, 3-year obligation with a fixed, annual coupon of 5%**



# Equity

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## Definition:

A security that provides the investor with an equity or ownership stake in a company. The investor seeks to earn at least one of the following:

1. Dividends (profit distribution)
2. Capital gain (market value at sale – purchase price)

**Stocks are *not* a short-term investment; in general they are appropriate for investors who have a time horizon greater than 5 years.**

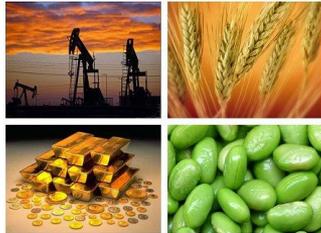
# Tactical

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## Definition:

Investments that serve as diversifiers within the GAVI long-term portfolio. They do not share the typical characteristics of fixed income and equity. Examples include:

- Commodities
- Infrastructure
- Real estate investment trusts



# Multi-Exposure

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## Definition:

Investing in a combination of various asset classes through the use of liquid, flexible strategies. It serves the goal of diversifying risk and mitigating volatility.

These strategies may include common asset classes such as:

- Equity
- Fixed Income
- Currencies
- Commodities

# Socially Responsible Investment (SRI)

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- Gavi SRI Policy requires **semi-annual negative screening** on investments in companies that produce **tobacco products, weapons, landmines/cluster munitions** and companies that have or are alleged to have **material breaches of human rights and child labour standards**.
- Gavi only screens individual company holdings, e.g., public equities and corporate bonds. Some corporate investments are not screened because the fund holdings are not transparent or in index funds.
- The value of noncompliant companies in each fund cannot exceed **2%**. An internal evaluation will be initiated for a fund if it has breached the 2% limit for two consecutive screenings.

**Thank you**

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