SUBJECT:	**INVESTMENT COMMITTEE CHAIR REPORT**
Agenda item:	11
Category:	For Information

Section A: Introduction

- This report provides the Board with an overview of the activities of the Investment Committee since the Board last met in November 2018.

- The Committee met twice since November, and despite the volatility (both upwards and downwards) has kept the asset allocation steady given the underlying macroeconomic conditions remained solid although potentially challenged in the face of rising trade tensions, an unresolved Brexit, rising European populism, and other country-specific challenges including Turkey and Argentina.

- In January, US Federal Reserve ("Fed") Chairman Jerome Powell's pledge of patience with rates mollified investor fears about a series of potential US rate hikes later this year. The Federal Reserve joined the ranks of other major central banks who have taken an accommodative stance and kept rates low. Furthermore, global rates are likely to move even lower if weaker economic data points emerge later this year. Australia may be the canary in the coal mine; their central bank in early June cut rates for the first time in three years to soften the impact of a potential slowdown in China. It is widely expected that the Fed will cut US short term rates this year.

- Markets sold off meaningfully in Q4 2018. However, during the first four months of 2019, equity investors were spurred on by the Fed pivot and consistently positive comments from both the US and China on a trade "deal" being agreed. By way of example, during the first four months of 2019, the US equity index S&P 500 started from a low in early January and jumped +20.3% by late April (trough to peak). Likewise a key MSCI global equity index had a trough to peak move of +17.9%. Equity markets in May were upended by a President Trump tweet shattering the consensus that a "deal" would be reached although some measure of calm has returned so far in June.

- In contrast, bond markets have delivered a less enthusiastic view of the future. The 10-year US Treasury yields dropped from 2.78% in mid-January to 2.07% in early June, suggesting fixed income investors sense trouble ahead. Much has been written about the inversion of the US yield curve where long term yields are lower than short term yields. An inversion does not guarantee that a recession is imminent but equally it is not a positive signal. Beyond the US, there is concern about the meaningful jump this year in the amount of negative yielding debt. Using the Bloomberg Barclays Global Aggregate Index as a yardstick for global investment grade debt, it is estimated that about one-fifth of the outstanding US$ 53.6 trillion of investment grade debt has a negative yield, primarily Japanese and European (German 10 year bund yields hit a record low negative yield earlier in Q2.) It is a troubling statistic that suggests owners of negative yielding debt prefer return of capital over return on capital.

- The cost of tariffs are borne by businesses and consumers, and weakening business confidence will ultimately translate into slowing global economic growth. The cost of tariffs for the Chinese economy has yet to materialise in a meaningful way. Despite a round of tariffs imposed in 2018, the National Bureau of Statistics reported first quarter 2019 GDP growth rate of 6.4% comparable to the same quarter in 2018. Given its central planning regime and longer term perspectives, the Chinese government can unilaterally implement policies to support short term economic growth. It is not clear how the near term stand-off between the US and China is resolved and further market volatility is therefore likely.

- The Committee did not make any changes to the Investment Policy Statement. However, with respect to its affiliated document, the Asset Allocation Statement, the Committee did elect to add another benchmark for the Multi-Exposure allocation. The new benchmark (Credit Suisse Multi-Strategy) is used to measure market performance and volatility of the Multi-Exposure Allocation over a short to intermediate-term horizon. The existing benchmark (BofA Merill US 3-month Treasury + 5%) remains in place but its shortcoming is that it does not embody the underlying market exposure.

- The total portfolio reported through April 2019 is US$ 1.7 billion of which US$ 884 million is invested in the long-term portfolio. The remaining US$ 806 million short-term portfolio includes US$ 206 million of cash proceeds that will be invested back into the long-term portfolio. As a reminder, these figures do not include the UNICEF Procurement Account or IFFIm assets.

- The short-term portfolio over which the Investments Team has control includes donor contributions that are not expected to be spent in the next six to nine months. It is invested in high quality, liquid strategies such as ultra-low and short duration fixed income, and the year-to-date return through April is +1.2%. Treasury staff manages the balance of the short-term portfolio which is intended to be used within 6 months, investing primarily in money market funds and deposits.

- The year-to-date return for the long-term portfolio is +6.0%. All assets classes produced positive returns.

- The Investment Chair report is attached in the form of a presentation as Annex A.

Annexes

Annex A: Investment Chair report

Annex A

INVESTMENT COMMITTEE CHAIR REPORT

BOARD MEETING

Stephen Zinser

26-27 June 2019, Geneva, Switzerland

Gavi The Vaccine Alliance

Reach every child

www.gavi.org

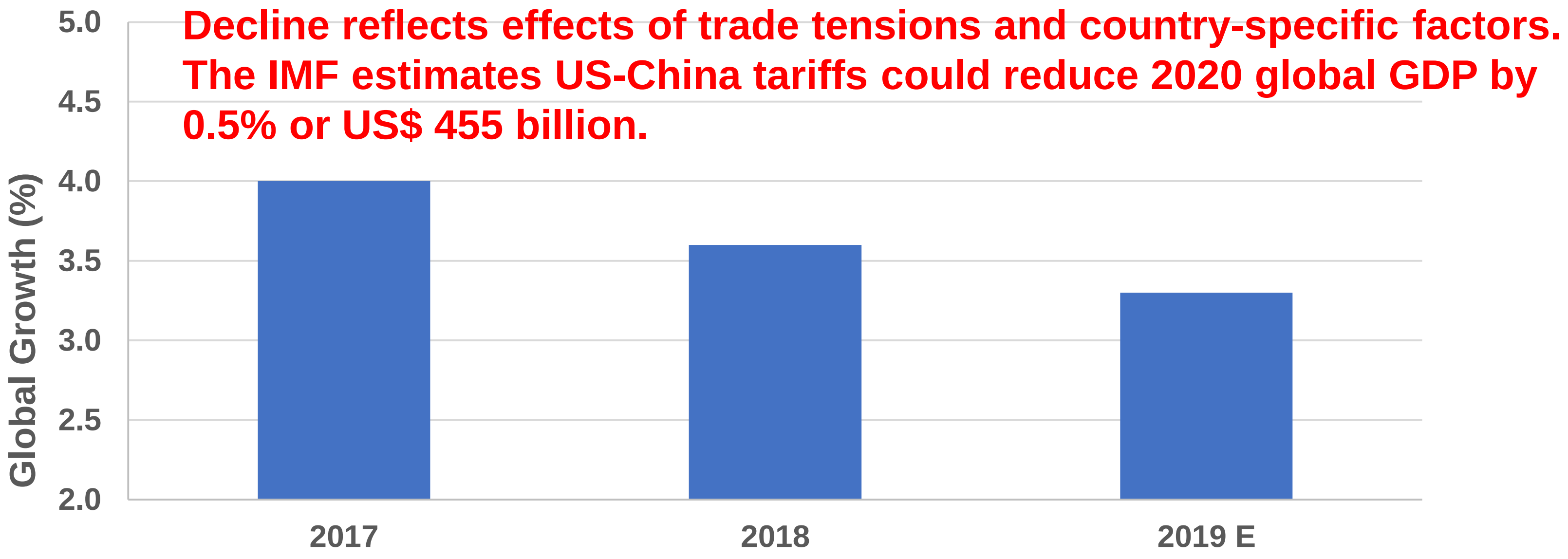
Market Sentiment: Moving to Fragile

Risks to global growth mounting: **Reduction in confidence leading to less business investment, and increasing the risk of recession.**

Geopolitical risks overshadow fundamentals: **Markets have been rattled by Sino-US and other trade tensions, Brexit and threats from populist Euro-sceptic parties.**

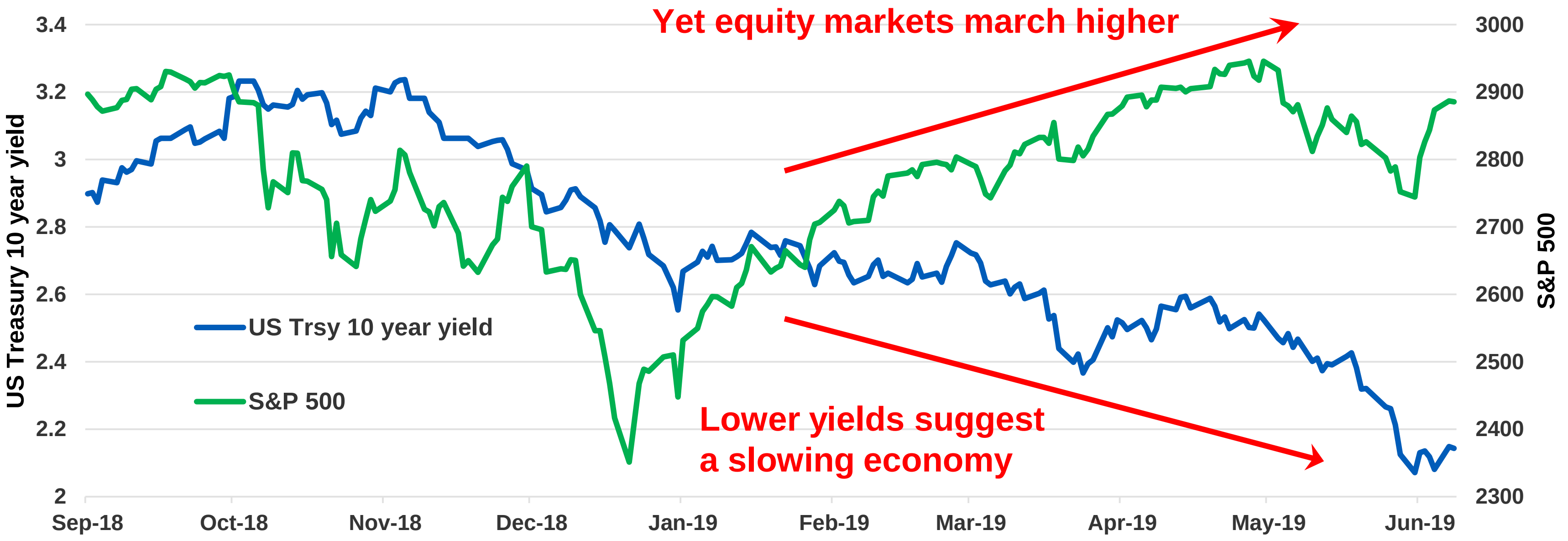
Monetary policy at crossroads: **US rates are dependent on a fluid trade and confidence situation. The next Fed move is likely to be a cut.**

World Growth Declining



Source: IMF World Economic Outlook, April 2019

Markets Offer Differing Views



Source: Bloomberg as of 11 June 2019

Market Commentary

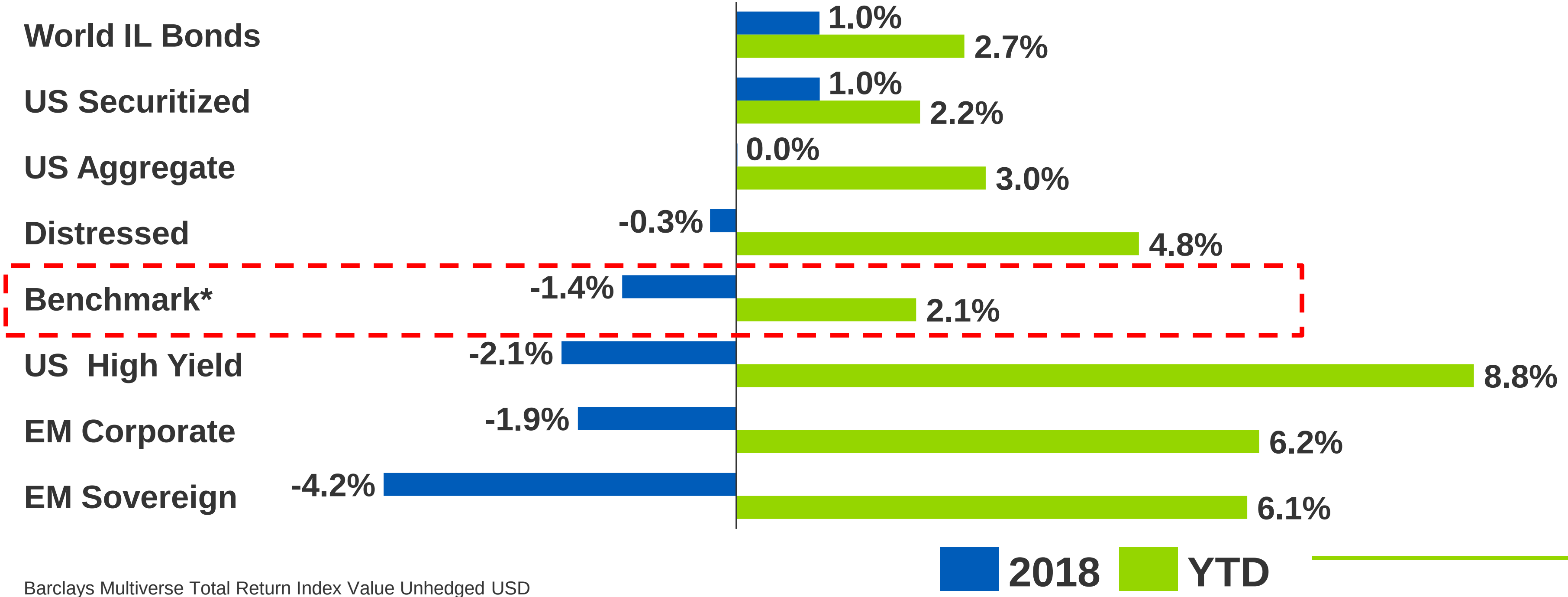
Equity markets: Solid Q1 growth in the US, the Fed pivot, and optimism about a US-China trade deal drove equities higher until early May.

Fixed income: Risk assets such as high yield as well as safe haven assets like US Treasuries delivered positive returns.

Commodities: Lower economic growth expectations have begun to dampen commodity prices.

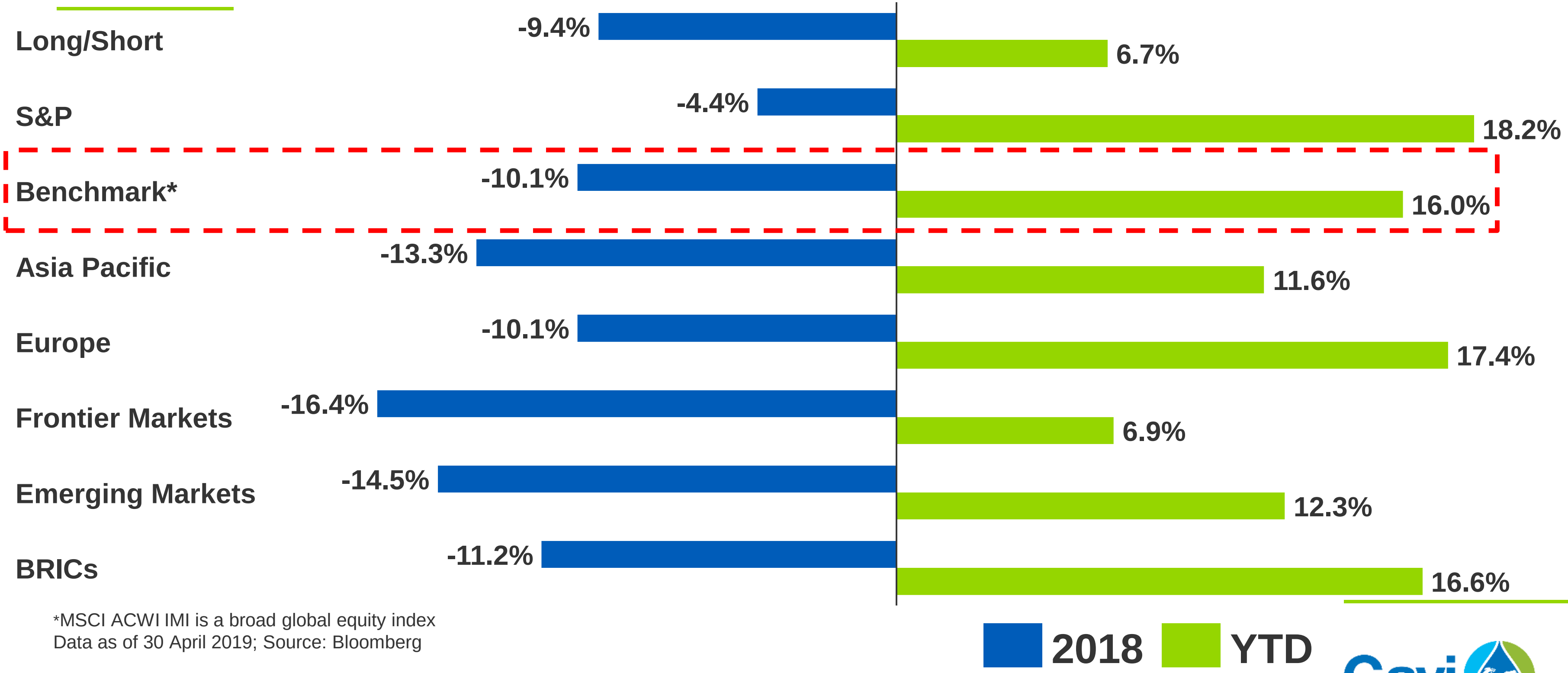
Currencies: Emerging market currencies weakened on fallout from US-China trade tensions, and specific challenges in certain countries.

Fixed Income Index Returns



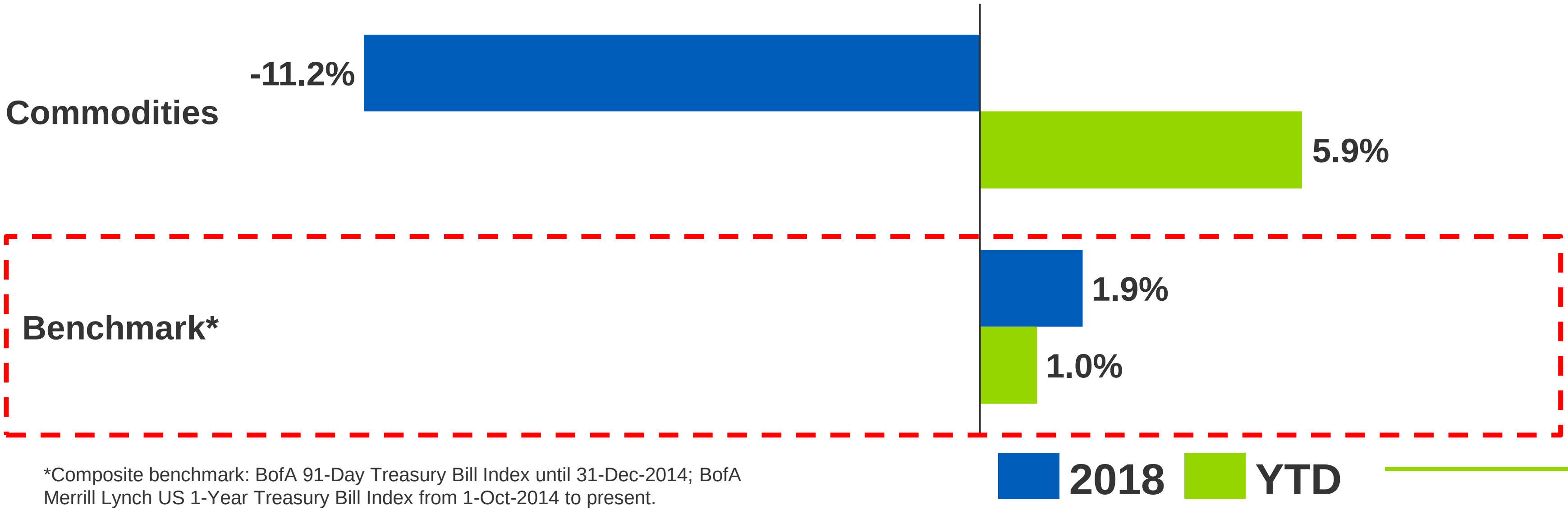
Barclays Multiverse Total Return Index Value Unhedged USD
Data as of 30 April 2019; Source: Bloomberg

Equity Index Returns



*MSCI ACWI IMI is a broad global equity index
Data as of 30 April 2019; Source: Bloomberg

Tactical Index Returns



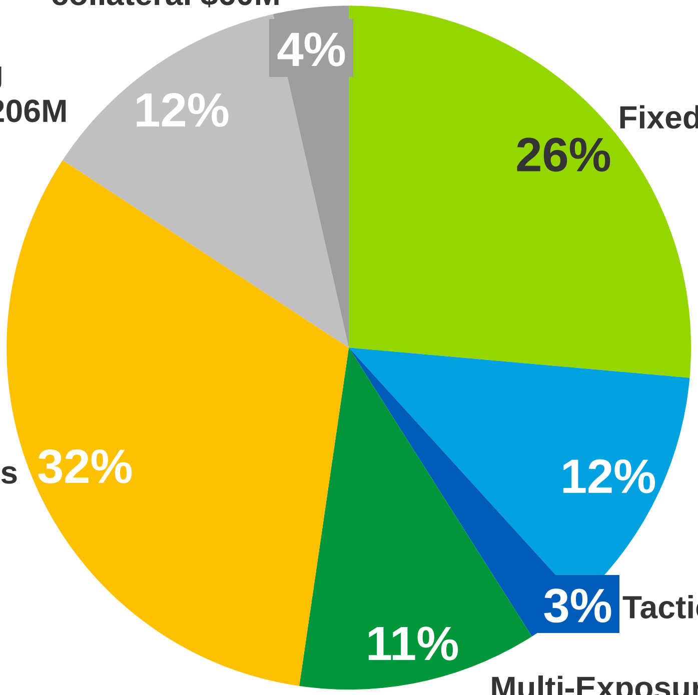
*Composite benchmark: BofA 91-Day Treasury Bill Index until 31-Dec-2014; BofA Merrill Lynch US 1-Year Treasury Bill Index from 1-Oct-2014 to present.
Data as of 30 April 2019. Source: Bloomberg.

Portfolio Objectives

Short-term	Long-term
• Maintain **liquidity** to meet anticipated operating requirements. • Provide for **prudent diversification** of investments to minimise credit and market risk exposure. • Generate income.	• 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 minimise correlation among investment strategies. • Maintain liquidity to meet unanticipated operating requirements. • Maintain overall portfolio volatility within acceptable risk levels.

Gavi Portfolio Allocation (US$ 1.7 B)[1]

Short - term portfolio $806 M



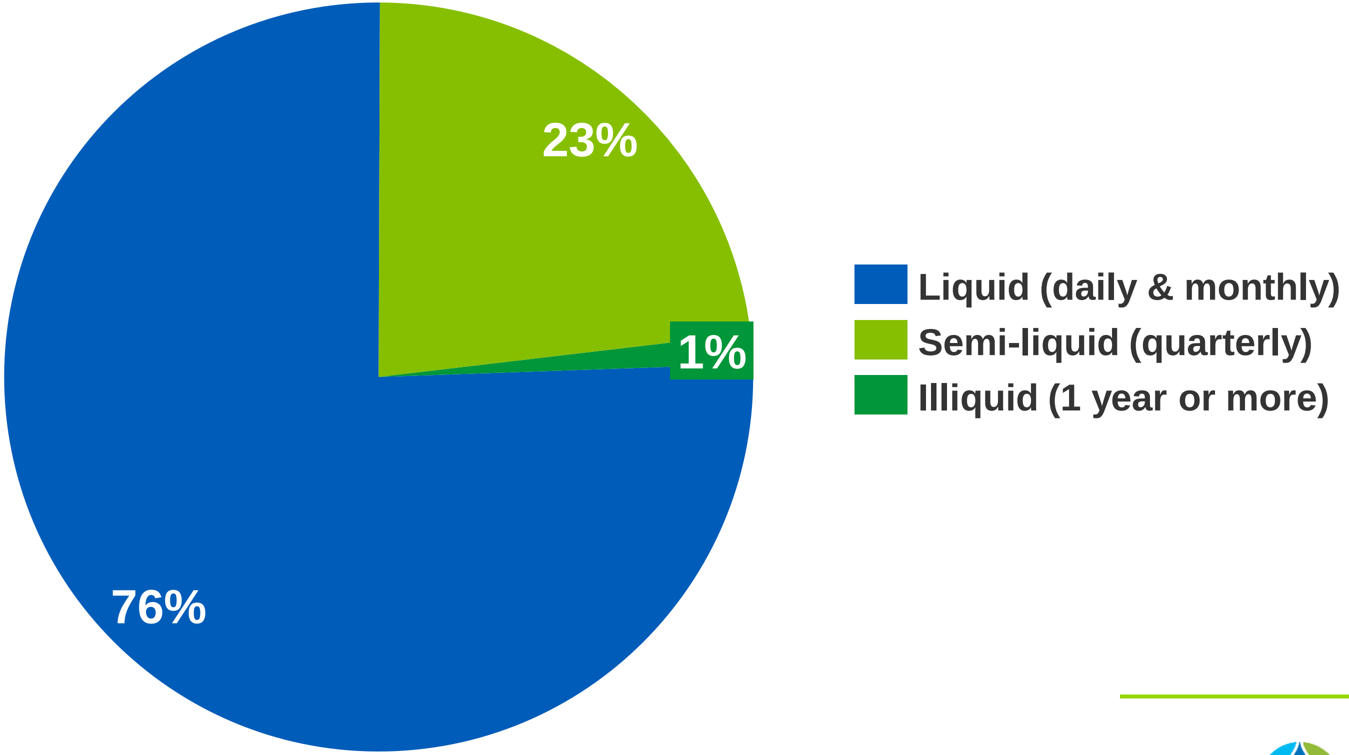
Long-term portfolio $884 M [2]

Data as of 30 April 2019

[1] Excludes UNICEF Procurement account of $713M, IFFIm assets, and $80 M in operating cash

[2] Includes $6 M in Advanced Contributions, not reflected in pie chart.

Long-Term Portfolio Liquidity



Data as of 30 April 2019

Portfolio Net Returns

The total portfolio generated estimated year-to-date net investment income of US$ 63.9 M, and since inception, US$ 613.4 M.

Portfolio returns	2013	2014	2015	2016	2017	2018	YTD
Long-term portfolio	2.9%	4.2%	-1.5%	6.4%	11.7%	-3.2%	6.0%
Short-term portfolio	0.4%	0.2%	0.4%	0.9%	1.0%	1.8%	1.2%

Data as of 30 April 2019
Source: internal estimates, short-term portfolio figures based on strategies managed by the Investments team

Comparison of Index Returns

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD
20.9%	16.2%	3.8%	36.4%	16.8%	11.1%	16.4%	23.6%	9.0%	0.1%	11.8%	23.9%	1.9%	16.0%
7.2%	11.2%	2.1%	18.9%	14.3%	5.5%	6.6%	2.9%	4.2%	(1.1%)	10.2%	11.7%	(0.1%)	6.0%
6.9%	9.2%	0.5%	9.3%	6.7%	4.0%	5.6%	0.1%	3.8%	(1.5%)	8.4%	7.7%	(1.4%)	5.9%
4.9%	7.9%	(6.3%)	8.8%	5.8%	0.1%	4.8%	(2.2%)	0.5%	(2.2%)	6.4%	3.3%	(3.2%)	2.7%
2.1%	5.0%	(35.6%)	8.0%	5.4%	(7.9%)	0.1%	(5.5%)	0.0%	(3.3%)	2.8%	1.7%	(10.1%)	2.1%
1.4%	2.7%	(42.3%)	0.2%	0.1%	(13.3%)	(1.1%)	(9.5%)	(17.0%)	(24.7%)	0.3%	0.9%	(11.2%)	0.8%

Global Fixed Income
World IL Bonds
Cash
Global Equities
Commodities
Gavi LTP

Data as of 30 April 2019
Source: Bloomberg, internal estimates

Gavi
The Vaccine Alliance

Key Highlights 1H2019

Income Generation	• Performance in the first four months of the year was solid but it should not be annualised for full year expectations.
ESG Transition	• The Committee's semi-annual SRI review led to the conversion of a short duration manager from a conventional strategy to a ESG commingled fund, where Gavi is the first investor. Similarly in 2018 Gavi shifted to a US ESG passive equity strategy.
Manager Rotation	• Preparations for more volatile markets and a late cycle investment landscape are largely complete; less directional and lowly correlated strategies have been added. Proceeds from manager terminations exceeded manager hiring in 1H2019 so there is further cash to re-deploy.
Annual Audit	• The transition process from KPMG to Deloitte as it relates to investments was smooth. There are no issues to report.

Key Priorities 2H2019

Liquidity risk	• Market liquidity will be scarce during risk-off periods. The Committee monitors portfolio liquidity in case redemptions are required to meet operating and programmatic needs, as did happen in 2Q.
Maintain focus on capital preservation	• With heightened potential for increased volatility, the Committee intends to keep the portfolio at the conservative end of asset allocation scenarios.
Evaluate climate risk	• The Committee requested a review of options for how climate change risks could be integrated into the investment process. Projected global costs[1] of US$ 1 Trillion over the next 5 years and increased pressure on companies to report climate risks add urgency for Gavi to engage in this review.
Manager due diligence	• The investment management industry is under increasing stress with the popularity of passive strategies, integration of technology in the investment process, and higher regulatory costs.

(1) Carbon Disclosure Project ("CDP") estimate includes losses from the physical effects of climate change, losses on stranded assets, and higher operating costs related to legal and policy changes. CDP runs the global disclosure system for environmental information.

Appendix

Long-Term Portfolio Returns

Exposure vs. Benchmark	2014	2015	2016	2017	2018	YTD
Fixed Income	3.4%	0.9%	6.0%	6.5%	(1.1%)	3.5%
Barclays Multiverse[1]	*(0.6%)*	*(3.3%)*	*2.8%*	*7.7%*	*(1.4%)*	*2.1%*
Equity	6.4%	(1.7%)	6.4%	25.3%	(9.2%)	12.0%
MSCI ACWI IMI	*3.8%*	*(2.2%)*	*8.4%*	*24.0%*	*(10.1%)*	*16.0%*
Tactical	5.1%[3]	(10.3%)	16.0%	12.3%	2.1%	6.6%
BofA Merrill US 1-Year Trsy[2]	*0.1%*	*0.2%*	*0.8%*	*0.6%*	*1.9%*	*1.0%*
Multi-Exposure	4.4%	(4.3%)	4.7%	14.7%	(2.0%)	6.5%
Credit Suisse Multi-Strategy[4]	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*4.3%*
BofA Merrill US 3-Month Trsy+ 5%[5]	*N/A*	*N/A*	*N/A*	*5.9%*	*7.0%*	*2.4%*
Long-term portfolio	4.2%	(1.6%)	6.4%	11.7%	(3.2%)	6.0%

Data as of 30 April 2019
(1) From 1 March 2014 to present
(2) From 1 October 2014
(3) Inception date 30 May 2014
(4) Benchmark not implemented until March 2019
(5) Benchmark not implemented until March 2016

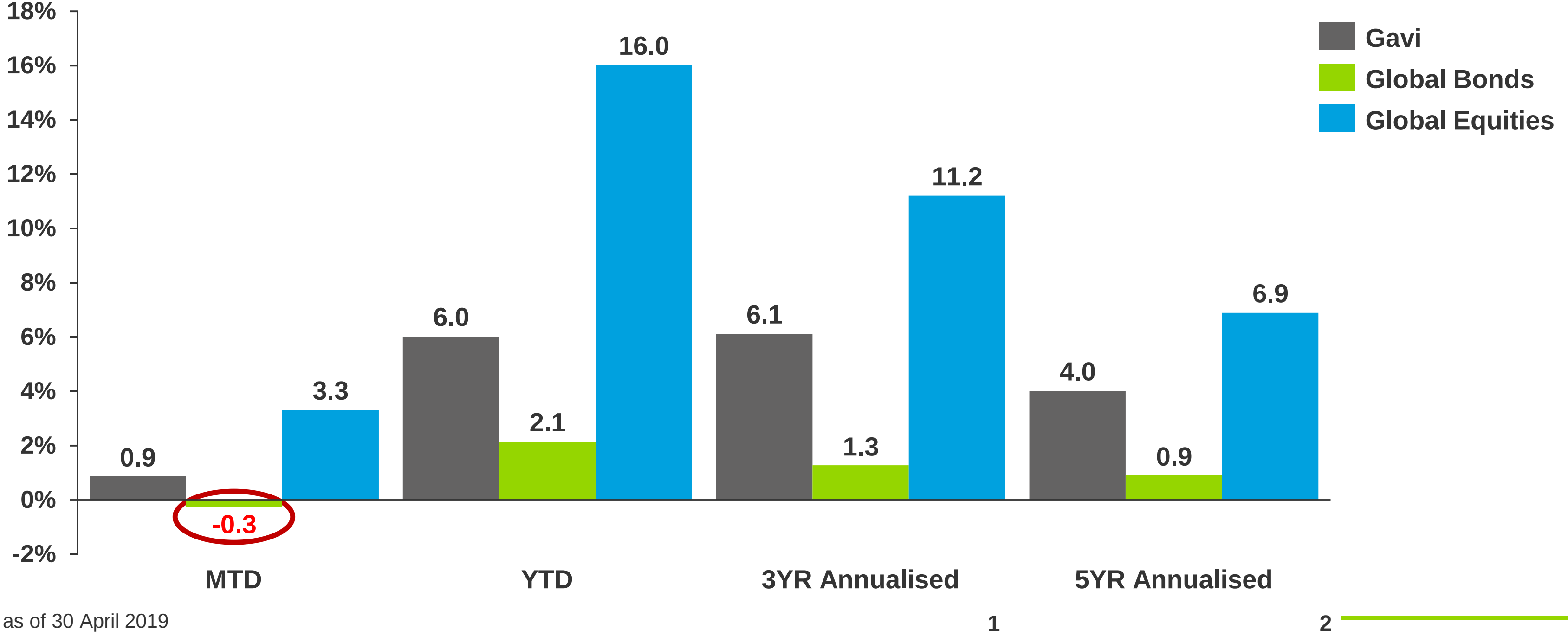
Long-Term Portfolio Monthly Returns

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD
January	0.62%	2.31%	-0.69%	0.77%	0.17%	1.51%	0.56%	-0.14%	0.64%	-2.01%	1.47%	1.33%	2.77%
February	0.99%	-0.24%	-1.62%	0.46%	0.53%	0.44%	0.05%	2.10%	1.71%	-0.43%	1.41%	-1.84%	0.90%
March	0.05%	-0.84%	1.86%	0.21%	0.39%	-0.39%	0.68%	0.13%	-0.08%	3.33%	0.60%	0.07%	1.33%
April	0.32%	0.23%	1.69%	0.98%	1.39%	0.69%	1.10%	0.60%	1.02%	1.24%	1.14%	-0.01%	0.88%
May	-0.47%	-0.14%	2.26%	-0.01%	0.39%	-0.40%	-1.29%	1.43%	0.03%	0.42%	1.04%	-0.60%	
June	-1.15%	-0.59%	0.46%	0.94%	-0.35%	0.64%	-2.46%	1.01%	-1.36%	0.17%	0.58%	-0.52%	
July	-0.33%	-1.01%	1.36%	1.23%	1.53%	1.74%	1.40%	-0.54%	-0.07%	1.81%	1.26%	0.76%	
August	1.08%	0.42%	0.95%	1.07%	0.21%	0.48%	-0.81%	1.29%	-2.79%	0.65%	1.00%	0.06%	
September	1.56%	-3.30%	1.20%	0.70%	-1.42%	0.69%	1.83%	-1.76%	-1.76%	0.60%	0.43%	0.31%	
October	0.62%	-5.46%	0.81%	0.92%	0.94%	0.03%	1.54%	0.78%	2.80%	-0.21%	0.65%	-2.08%	
November	-0.24%	-0.77%	1.41%	-0.84%	-0.53%	0.55%	0.14%	0.51%	-0.28%	-0.52%	0.58%	-0.19%	
December	-0.35%	3.14%	-0.70%	0.11%	0.72%	0.42%	0.20%	-1.20%	-1.25%	1.30%	0.96%	-0.50%	

Greater than +1.5% | Between 0% and +1.5% | Between -1.5% and 0% | Less than -1.5%

Data as of 30 April 2019

Long-term Portfolio Performance



Data as of 30 April 2019
Source: Bloomberg, internal estimates
(1) Barclays Multiverse is a broad, global fixed income index.
(2) MSCI ACWI is a broad, global equity index.

Investment Policies

Investment Policy Statement

(Detailed investment objectives, portfolio asset compositions, and performance review practices)

Asset Allocation Statement

(Identify asset allocation ranges and risk management limits)

SRI* Policy

(Demonstrate mission-based investments restrictions and portfolio monitoring process)

*Socially Responsible Investment

Socially Responsible Investment (SRI)

- 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.

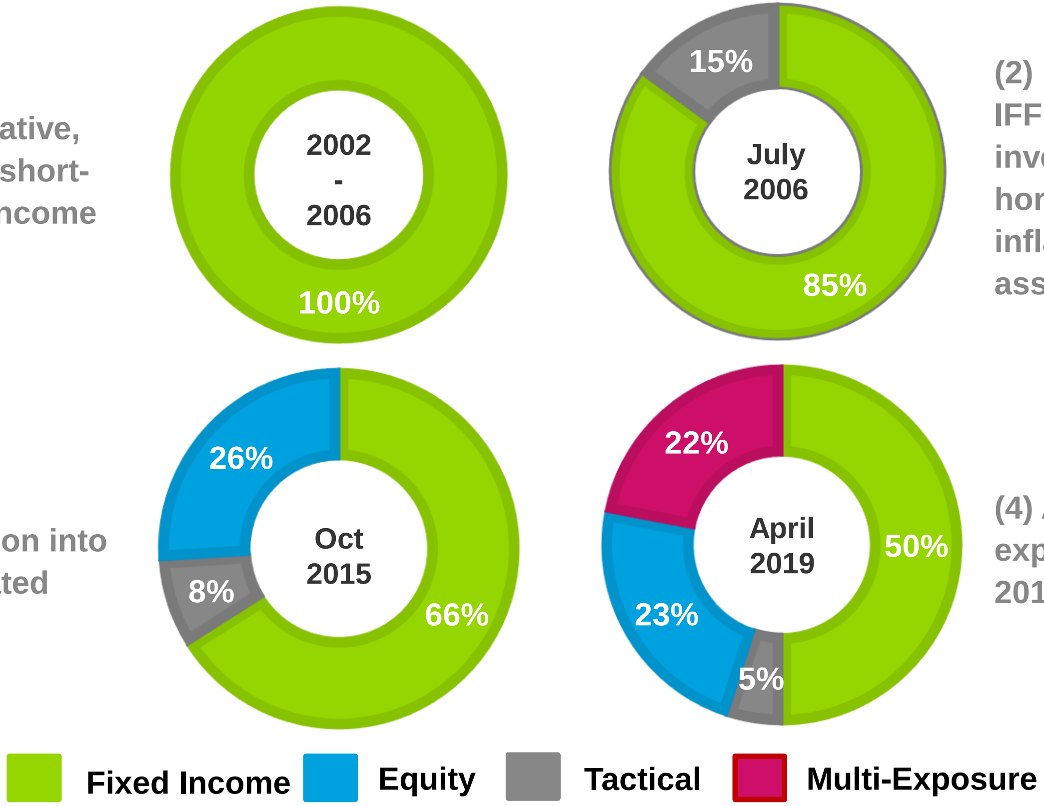
Long-term Portfolio Evolution

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

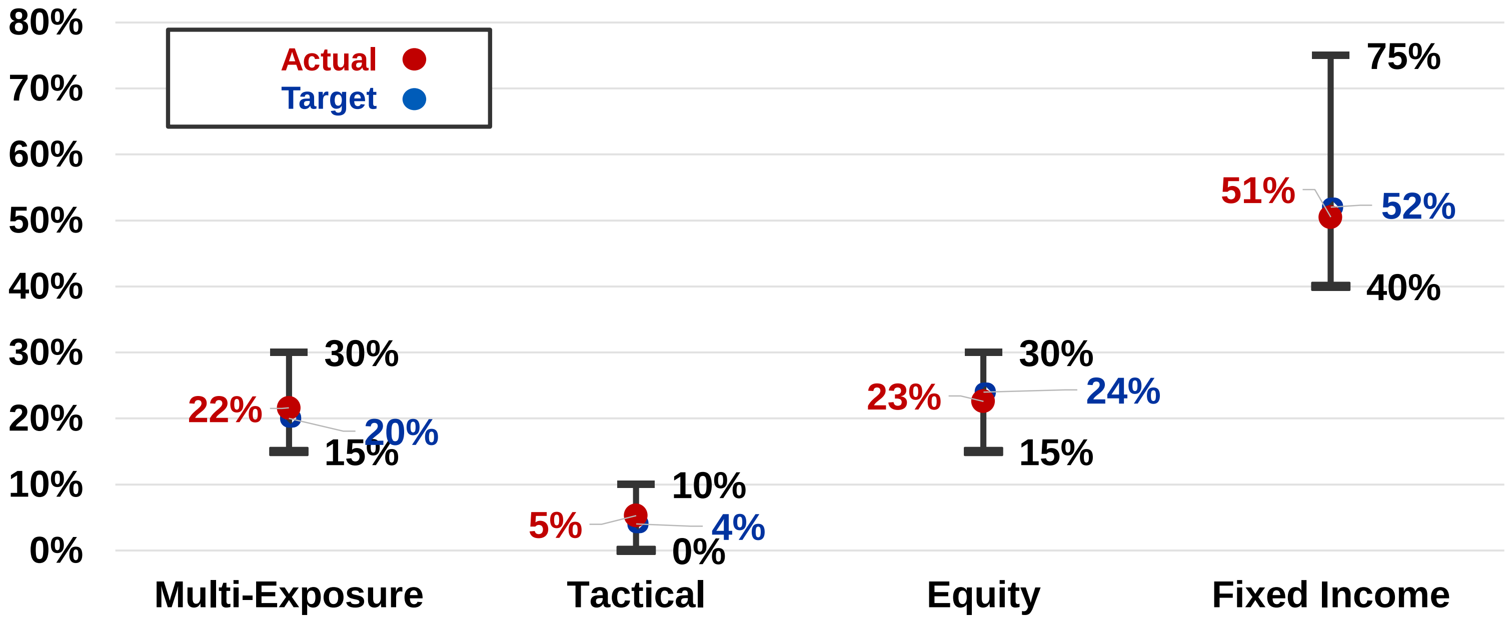
(2) Launch of IFFIm extended investment horizon; added inflation hedge assets

(3) Further diversification into less correlated assets

(4) Added multi-exposure in May 2016.



Long-Term Portfolio: Asset Allocation Ranges



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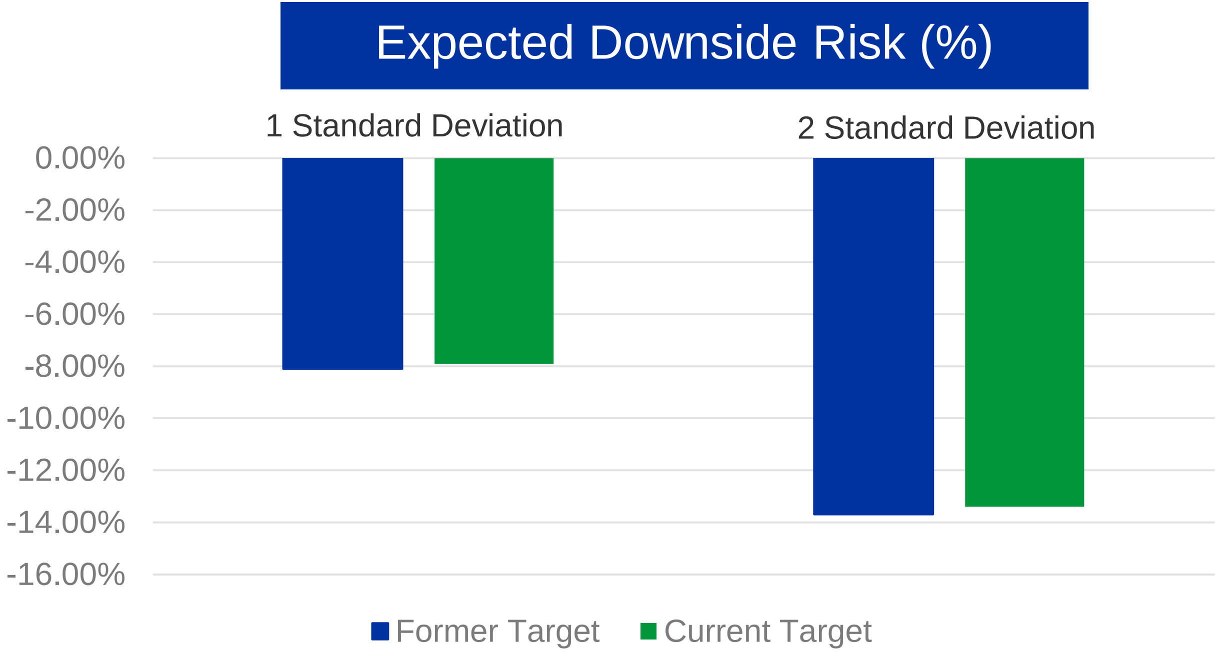
Long-Term Portfolio's Value at Risk (VaR)



Exposure Characteristics

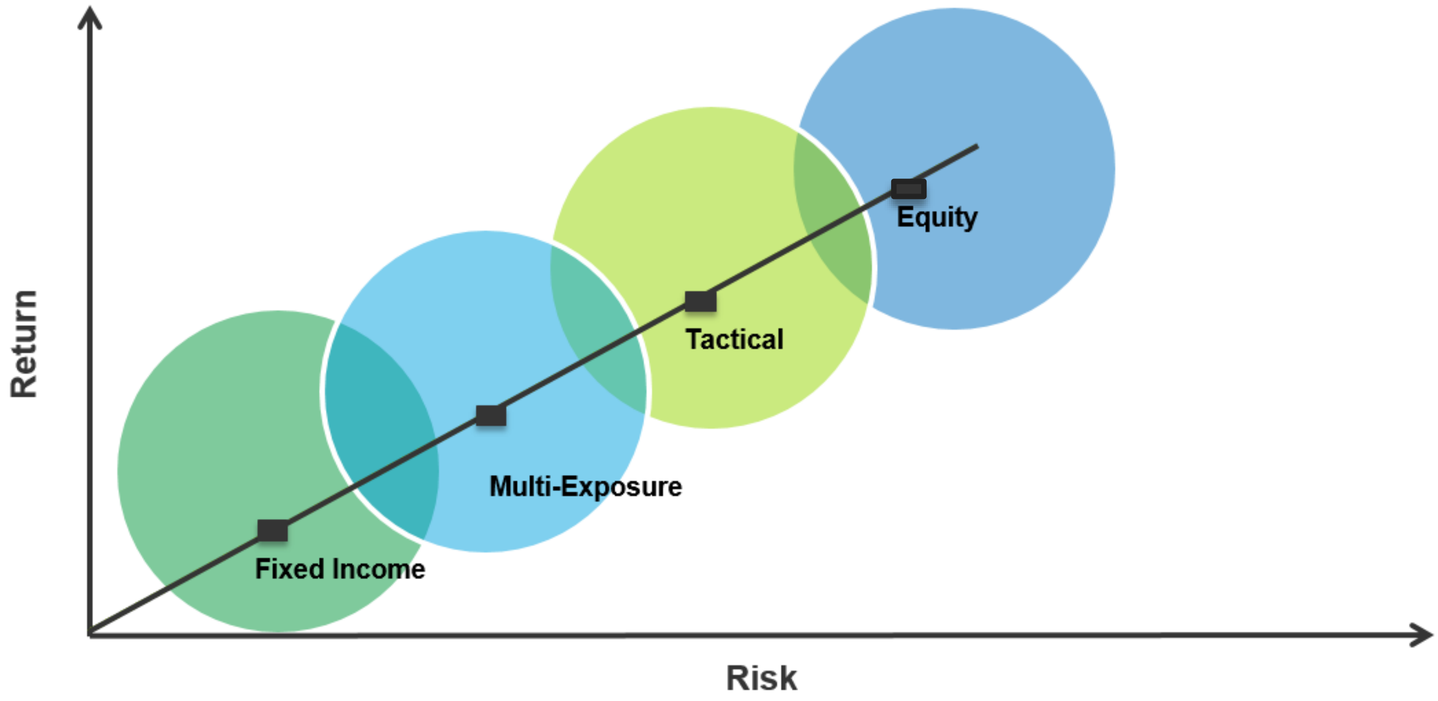
	Characteristics
Fixed Income (40% - 75%)	Capital preservation, income
Equity (15% - 30%)	Growth, inflation hedge (moderate)
Tactical (0% - 10%)	Less correlated assets lacking the typical characteristics of fixed income or equity
Multi-exposure (15%-30%)	Liquid, flexible, and risk diversified strategies

Asset Allocation: What To Consider

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



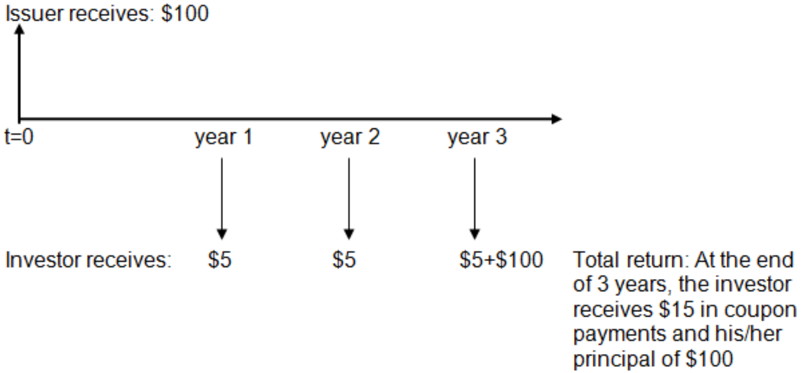
Fixed Income

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

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

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

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

Thank you

Gavi The Vaccine Alliance