

**SUBJECT: INVESTMENT COMMITTEE CHAIR REPORT**

**Category: For Information**

## **Section A: Introduction**

- This report provides the Gavi Alliance Board with an overview of the investment portfolio performance, the changes in the portfolio related to the ongoing focus on sustainability and the activities of the Investment Committee since the Committee Chair last reported to the Gavi Alliance Board 15-17 December 2020.
- The total portfolio value is US\$ 1.5 billion of which US\$ 1,125 million is invested in the long-term portfolio with an additional US\$ 101 million pending investment as of 31 May 2021. The remaining US\$ 236 million in the short-term portfolio represents donor contributions which are invested in very liquid, risk-free strategies such as money market funds. This was down from US\$ 394 million at the end of December 2020. In Q1 2021 the Investments team transferred US\$150 million in cash to support Gavi programmes which required the liquidation of US\$ 110 million of long-term portfolio proceeds and US\$ 40 million from the termination of one manager in the short-term portfolio.
- The Committee met twice in 1H 2021. In addition to the activities of monitoring markets, risks and investment performance, the Committee also covered two topics whose profile has increased with the advent of the COVID-19 pandemic: ESG and Sustainability and Diversity, Equity and Inclusion.
- Estimated year-to-date portfolio performance results have been compiled as of 31 May 2021. The long-term portfolio delivered year-to-date returns of 3.3%. A component of the policy index is not yet available so a comparison to the policy index cannot be offered as of this writing. However, as of 30 April the long-term portfolio return of +2.2% exceeded the policy index return of +2.0%.
- In 2020, equities and fixed income enjoyed recoveries based on accommodative monetary policy and large fiscal stimulus programs, propelled further by expectant and actual news on COVID-19 vaccine successes. However, performance diverged in 2021; equities remained buoyant while the fixed income faltered as fears increased on the potential for interest rate hikes. Sovereign bond prices with long duration experienced the most damage (yields and prices have an inverse relationship). For example, Bloomberg's Long Treasury index, which measures long duration US Treasury performance, suffered a -13.5% drop in Q1 2021 before enjoying a modest recovery in the months of April and May. The Fixed

Income portfolio's strategic underweight to duration and diversification helped to mitigate 2021 fixed income risks. Through May month end, the fixed income allocation delivered a year-to-date +2.3% return versus the benchmark return of -2.3%.

- Fixed income represents 44.9% of the long-term portfolio so it is by far the largest driver of performance. As the US economy recovers, the US Federal Reserve must eventually remove its hyper accommodative policies and raise rates. For now, markets are giving the Fed the benefit of the doubt that this will be a smooth process. However, the greater the market complacency, the more disruptive the reaction will be if investors decide that the Fed is "behind the curve". The positive side of rising rates is that fixed income will be able to generate more income going forward. It also means that the Fed will be able to reclaim an important tool if there is another economic shock; the ability to lower rates.
- Equity markets continued to churn higher, but the results were not even across regions. Among developed countries, those who had more successful vaccination programs generally recovered more quickly in anticipation of an economic re-opening. For example, the broad-based US equity index, the S&P 500, delivered a +18.4% return in calendar year 2020 (partly from the large technology component of the index as well), whereas the broad-based European equity index, the EuroStoxx 600, delivered a -1.4% return. For the year-to-date period ending 31 May 2021, the S&P 500 delivered a +12.6% return. Meanwhile, after a slow start, Europe continues to make critical vaccination progress and the year-to-date return of +14.0% reflects this increasing optimism.
- In addition to regional variations, there have been meaningful sector differences in equity returns. In 2020 technology was the darling sector and a significant driver of excess returns in Gavi's Equity portfolio. The tech heavy NASDAQ index delivered a +45.1% return in calendar year 2020. However, its' year-to-date return is a more modest +7.0%. On a year-to-date basis, Gavi's Equity portfolio has reported a +7.9% return versus a benchmark return of +11.3%. Technology holdings were a detractor as well as Gavi's investment in a global long-short equity strategy which is designed to provide downside protection during periods of market volatility but captures less upside when equity markets enjoy strong returns. Equity represents 29.1% of the long-term portfolio.
- The remaining exposures in the long-term portfolio are Tactical and Multi-Exposure, representing 8.0% and 18.0% respectively. Both currently lag their benchmark returns but have the potential to catch up as market conditions evolve later this year. The Tactical composite return of -3.3% lags the benchmark return of +0.1% due to the performance of a volatility trading strategy which traditionally performs well when market volatility picks up. In the larger Multi-Exposure portfolio, the lacklustre performance of an emerging market macro strategy contributed to a composite return of +1.2% which did not keep pace with the benchmark return of +2.1%.

- As reported in December 2020, the Investments team entered negotiations with two existing fixed income managers to create and launch sustainability focused strategies. Those negotiations have been concluded and both strategies are fully funded. In addition, the Investments team also identified an impact bond fund which moves further along the spectrum of sustainable investing by actively investing in securities that can be tied to positive societal impact (e.g., low-income housing). Investments into this new strategy have been approved by the Committee and are funding on an ongoing basis.
- The Committee remains vigilant about portfolio risk. One specific risk which has not been a challenge in the recent past requires specific consideration in 2021: inflation. The pandemic created pent-up demand in developed markets as consumers set aside extra savings and are returning with substantial financial firepower. Kinks in global supply chains are also adding to pricing pressures as are skill and availability mismatches in the employment market, particularly in service industries. With demand and supply out of sync, inflation figures are creeping up. Whether this inflation proves to be transitory or not will be a key feature of the investment landscape going forward.
- At the 11 May 2021 meeting, the Committee conducted an annual review of investment-related policies and governance documents. The Committee agreed on a few minor changes related to a refresh of terminology to remove references to the old by-laws and ensure alignment with the Gavi Board and Committee's Operating Procedures as well as Gavi's editorial style guide.
- The Investment Committee Chair report is attached in the form of a presentation as Annex A. The updated Gavi Investment Policy is attached as Annex B.

## **Annexes**

**Annex A:** Investment Committee Chair report

**Annex B:** Investments Policy

# INVESTMENT COMMITTEE CHAIR REPORT

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BOARD MEETING

**Stephen Zinser**

23-24 June 2021, Virtual Meeting

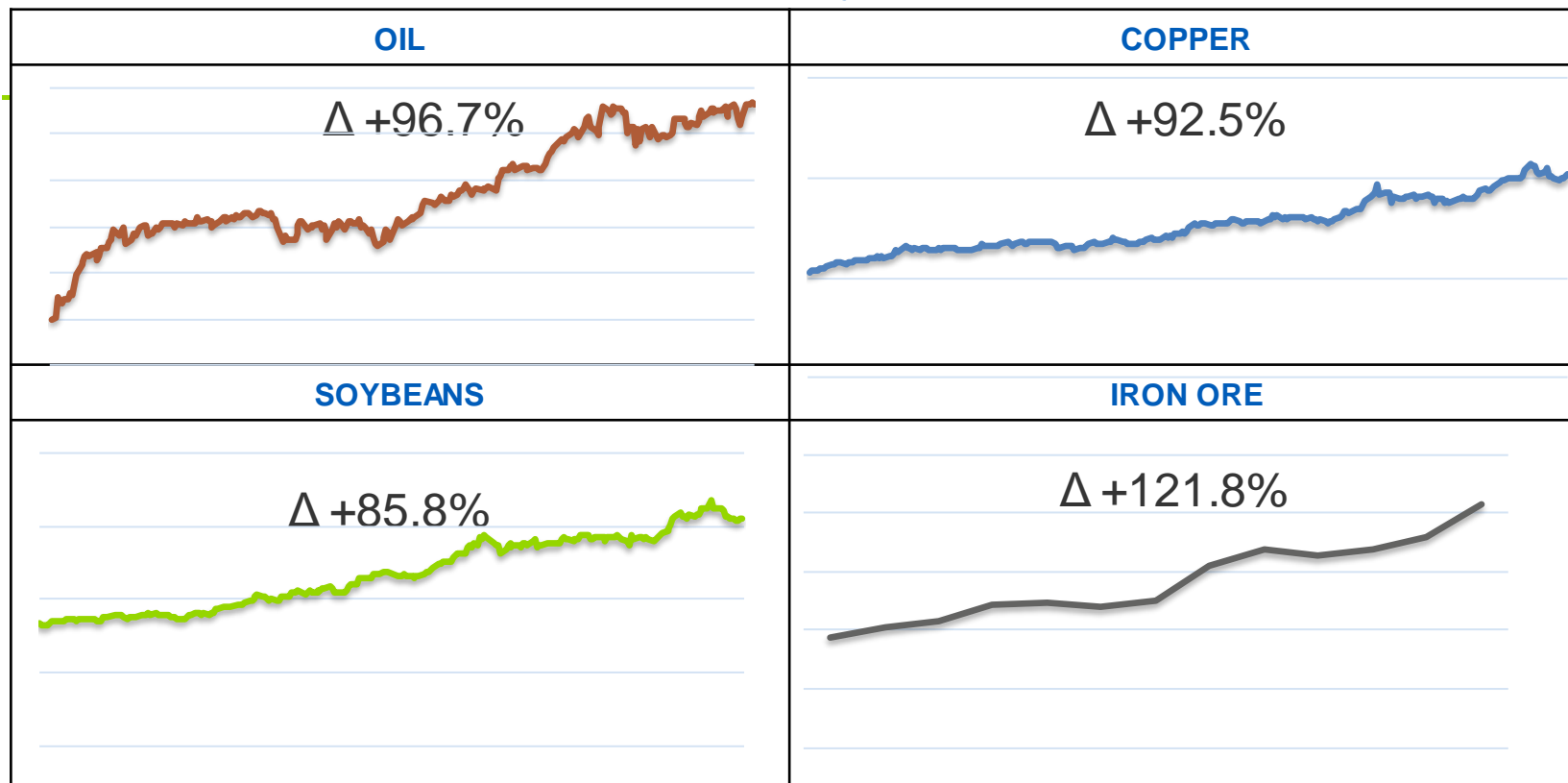
# Market Volatility Remains Subdued

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- **Inflation Risk:** Divergent opinions on whether recent price spikes and supply chain disruptions are transitory or not. Markets giving central banks the benefit of the doubt.
- **Developed equity markets near record highs:** FOMO (Fear of Missing Out) mentality intact but never ending fiscal and monetary stimulus is not feasible.
- **Warning Signs:** Low rates continue to fuel frothy pockets in financial markets, including SPACs, meme stocks and cryptocurrencies.

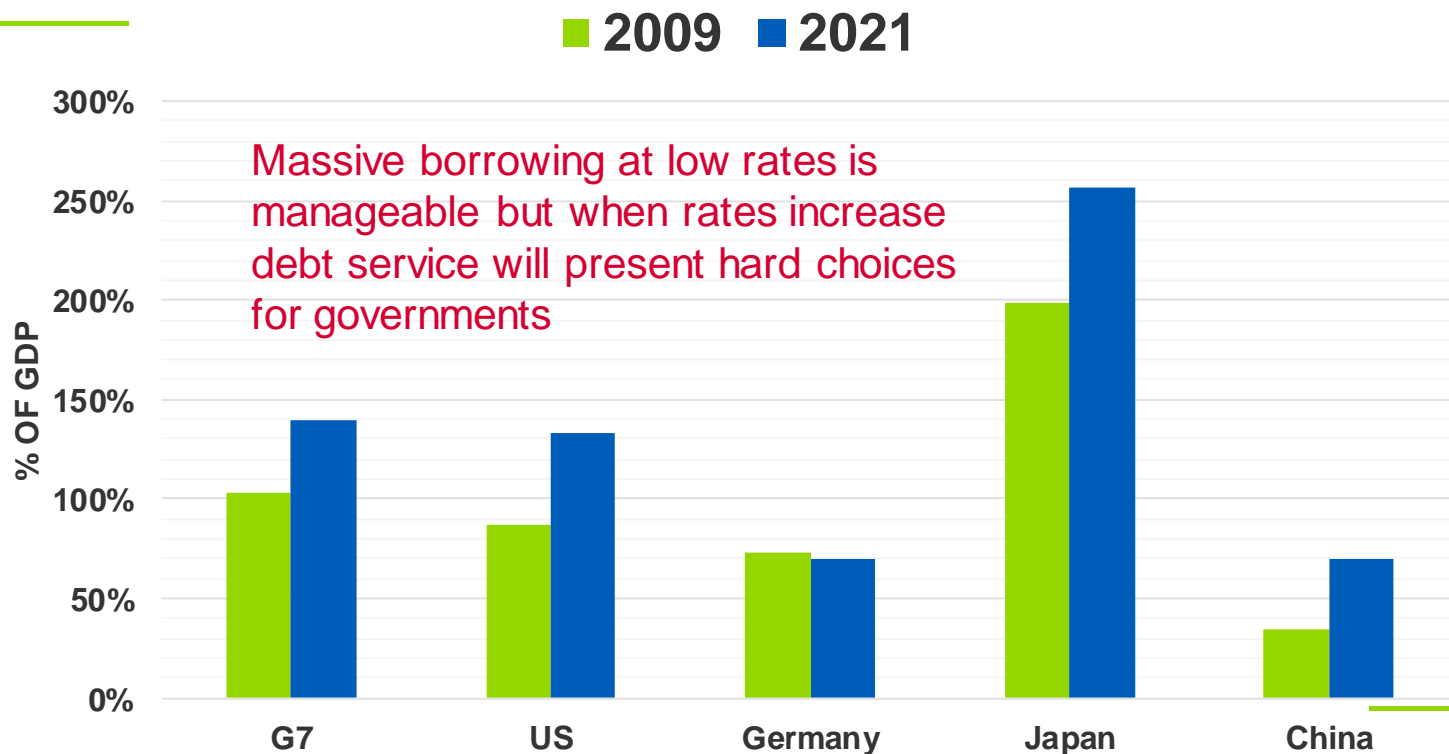
# Price Increases<sup>1</sup> : Transitory or Not?

Annex A

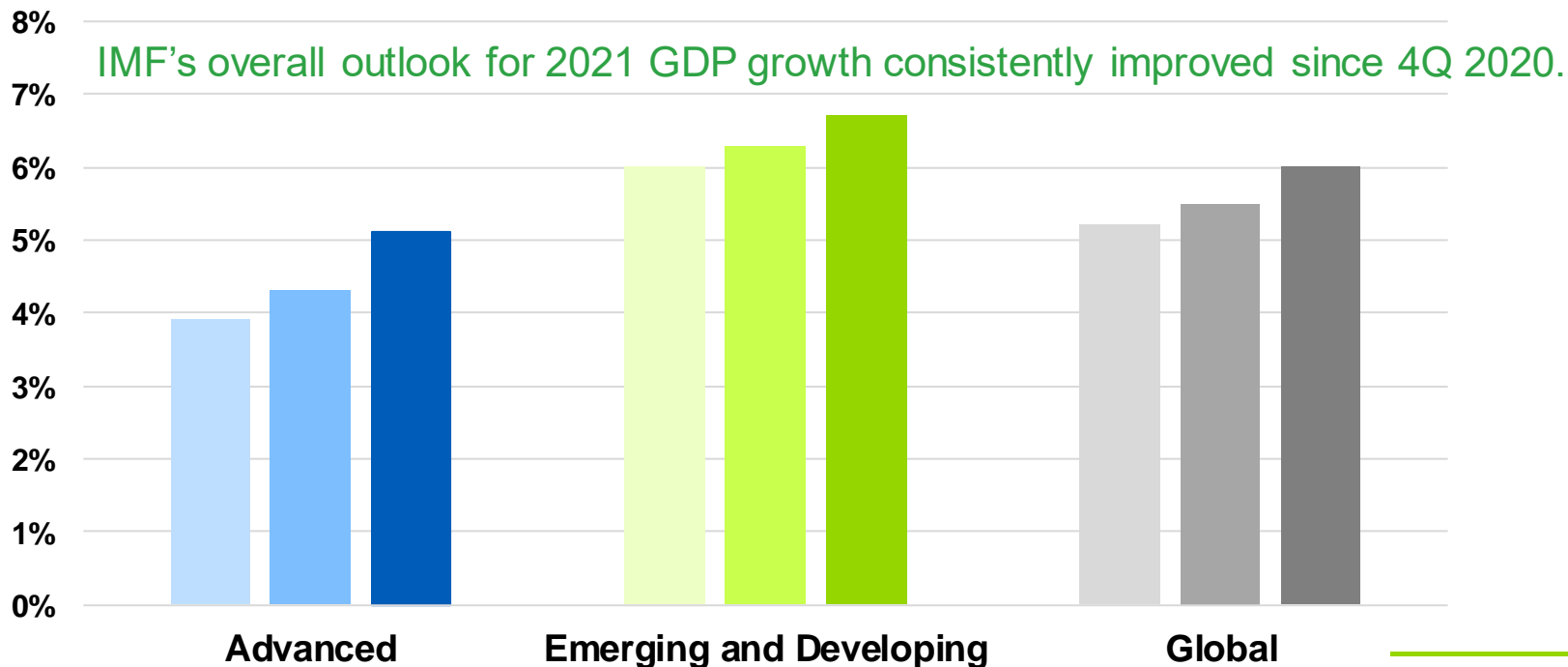


1. Prices reflect May 2020 to May 2021.

# Pandemic Led To Massive Borrowing



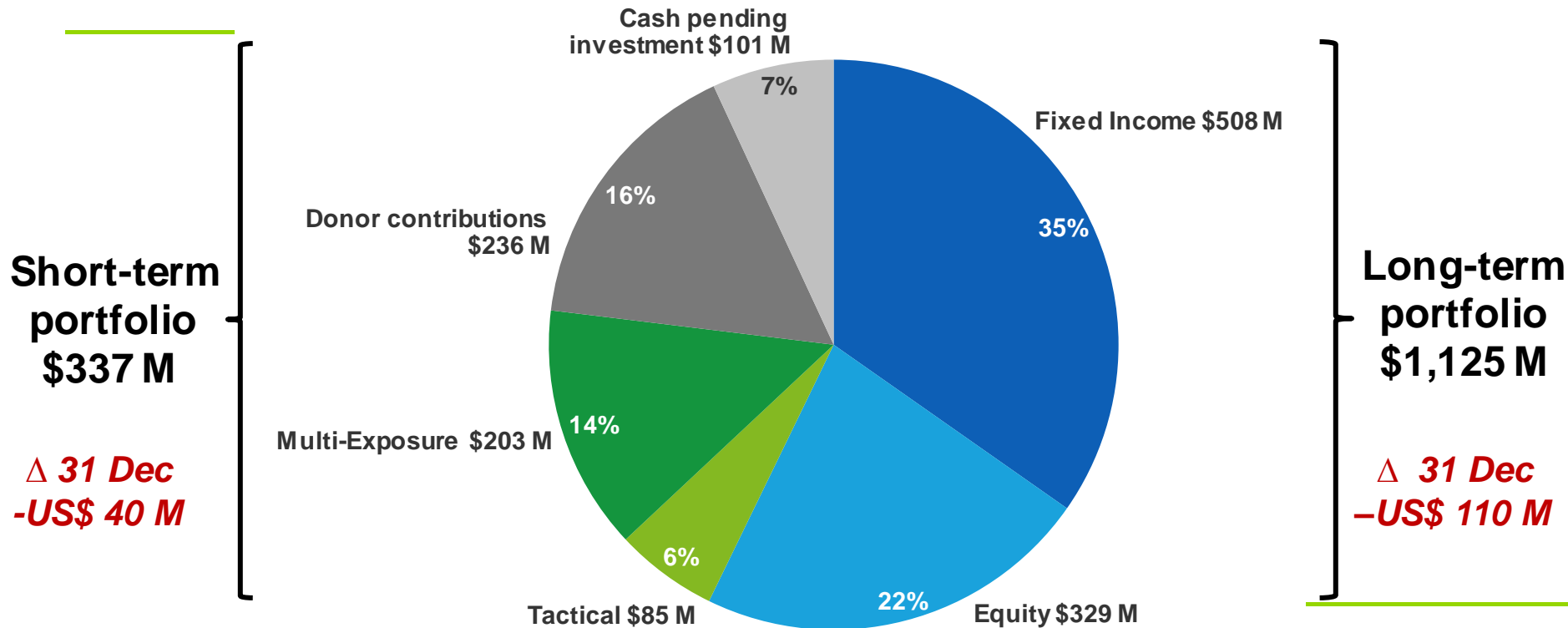
# IMF Outlook: Oct 20 – Jan 21 – Apr 21



Source: Data from the Oct 2020, Jan 2021 and Apr 2021 IMF World Economic Outlook reports



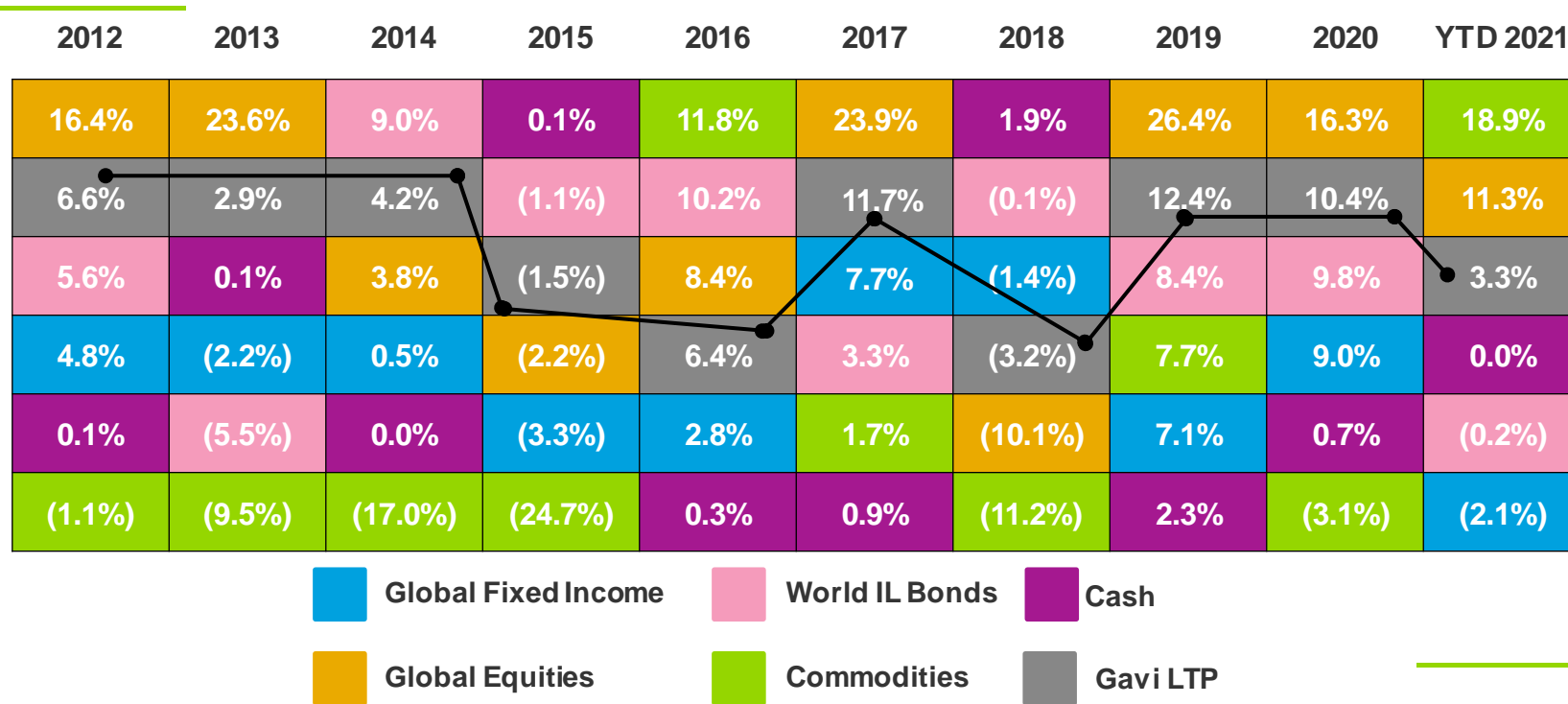
# Gavi Portfolio Allocation (US\$ 1.5 B)<sup>1</sup>



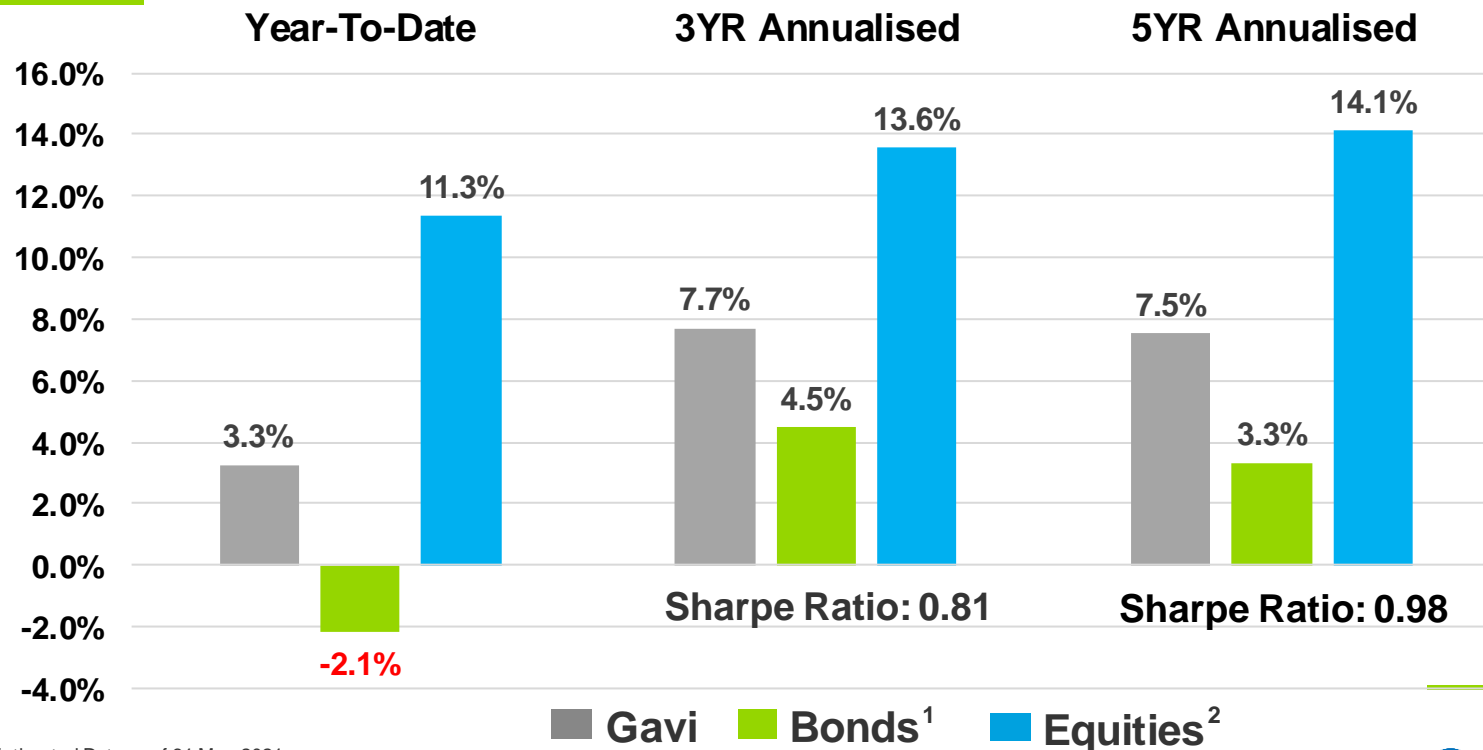
Estimated Data as of 31 May 2021

<sup>1</sup> Excludes UNICEF Procurement account of \$1,477M, IFFIm assets, and \$177 M in operating cash

# Comparison of Indices Returns



# Long-Term Portfolio Performance



Estimated Data as of 31 May 2021

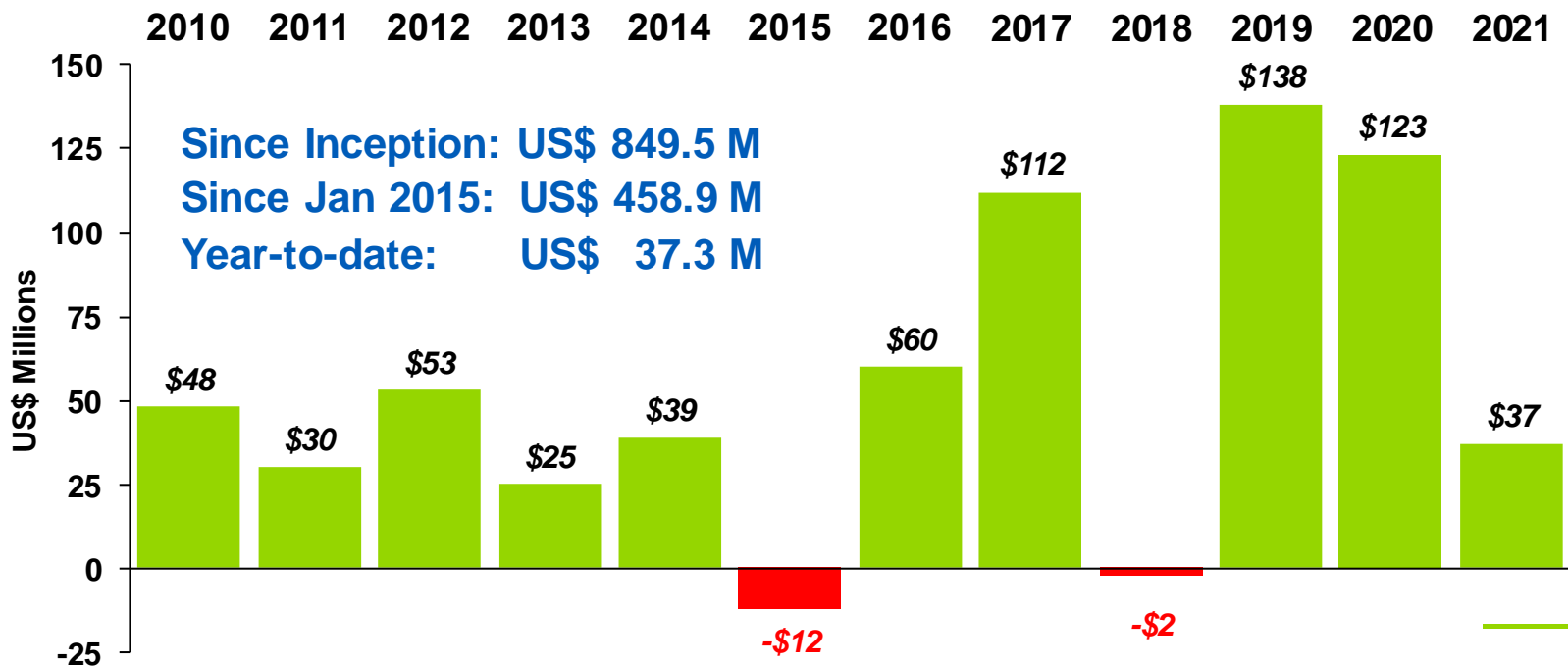
Source: Bloomberg, internal estimates

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

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

Board meeting  
23-24 June 2021

# Net Investment Income: Contribution to Mission



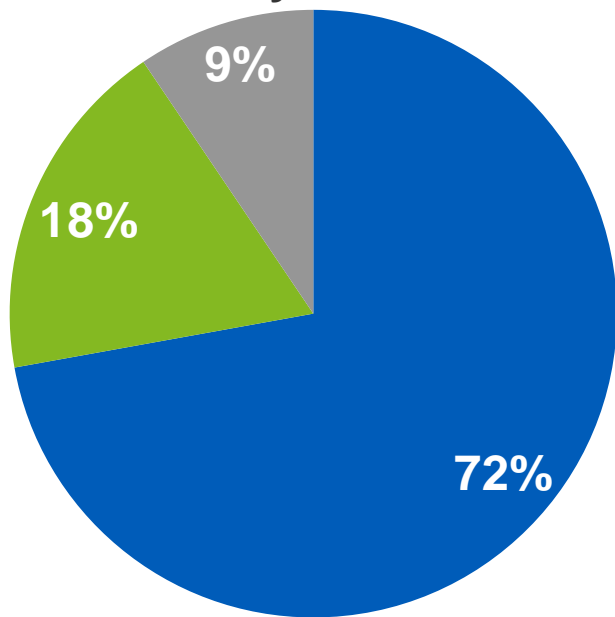
Estimated Data as of 31 May 2021

Board meeting  
23-24 June 2021

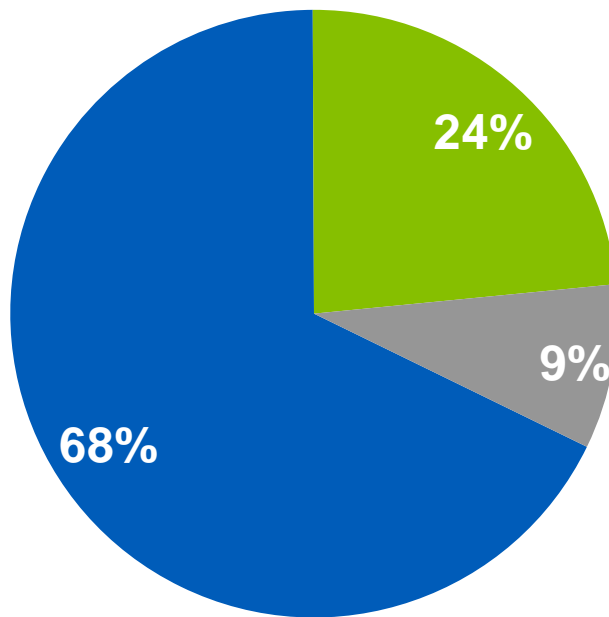
# Long-Term Portfolio Liquidity

- Liquid (daily & monthly)
- Semi-liquid (quarterly)
- Illiquid (1 year or more)





May 2020



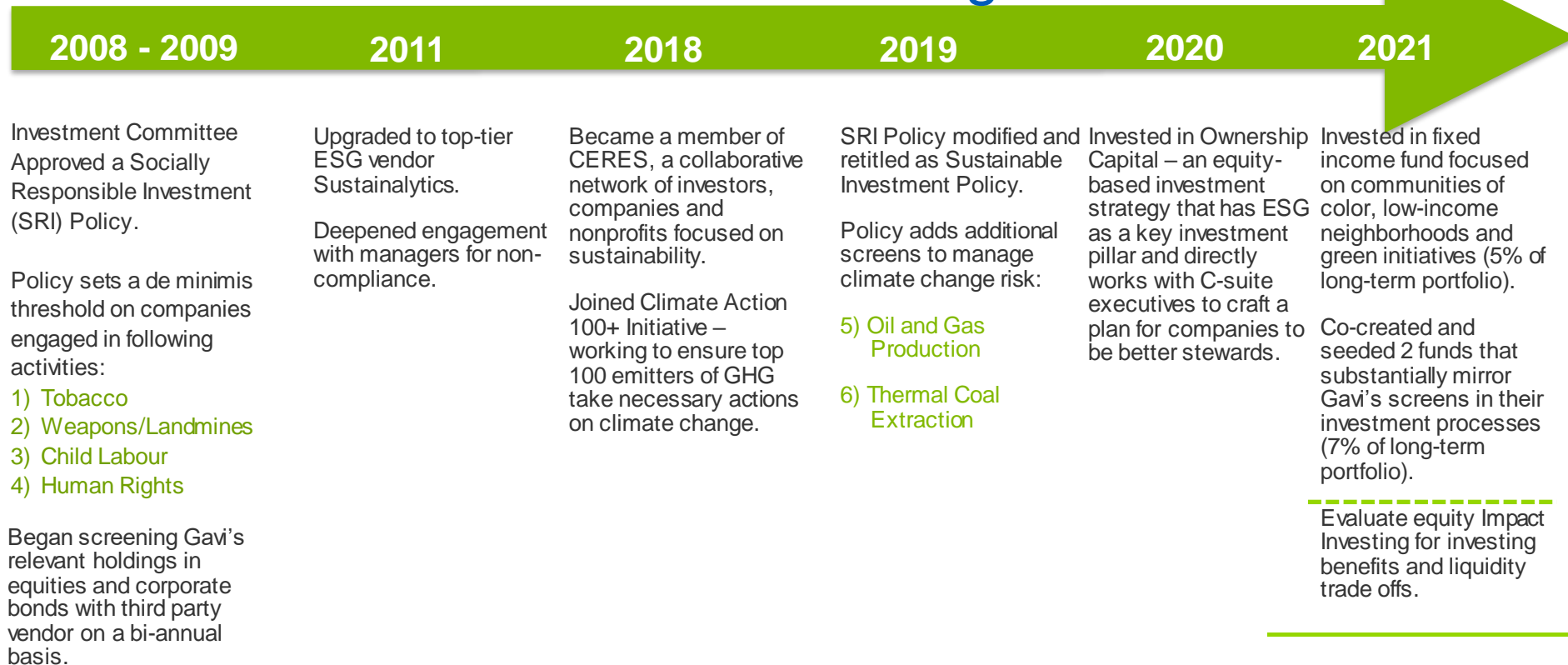
May 2021



# Sustainability: A Key Focus

<b>Align</b> 	<b>Integrate</b> 	<b>Advocate</b> 	<b>Monitor</b> 
<p>Ensure the portfolio supports and aligns with Gavi's mission.</p>	<p>Review how managers integrate stewardship into corporate priorities.</p>	<p>Encourage managers to integrate sustainability into processes, preferably as a PRI signatory.</p>	<p>Measure holdings and regularly report on findings to the Committee.</p>

# Gavi Sustainable Investment Programme



# ESG, Sustainability and Impact Investing Landscape

Annex A

	✓ <b>Negative Screens</b>	✓ <b>ESG Integration</b>	<b>Thematic</b>	<b>Shareholder Engagement</b>
<b>Strategy Focus</b>	Screening out certain securities for non-financial reasons	ESG factors built-in as part of the investment process	Pro-actively seeking opportunities in targeted areas (e.g. Renewable Energy)	Actively engage in corporate voting process to push key agenda
<b>Investment Universe</b>	Varied across asset classes	Sizable and includes mainstream managers	Growing in size, but most funds are smaller and newer	Small but growing
<b>Performance</b>	May lag benchmarks due to restricted universe	Performance studies show neutral to positive impact	Varied and will have sizable tracking error due to sector focus	Values-oriented motivations, performance impacts tangential
<b>Level of Impact</b>	Low	Low/Medium	High	High



# Key Priorities 2H2021

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<b>Maintain focus on risk and capital preservation</b>	The vaccine driven rally has repaired the damage sustained by financial markets but there are real risks associated with today's heightened risk asset values.
<b>Deepen sustainability</b>	Continue transitioning portfolio into strategies with sustainability integrated into investment processes and corporate priorities.
<b>Impact Investing</b>	Finalise the strategy for newer areas of thematic equity and private debt infrastructure investments.
<b>Transition to New Chair</b>	Afsaneh Beschloss will assume the Investment Committee Chair role going forward. She joined the Gavi Alliance Board in January 2020 and has significant multi-lateral and private sector investment expertise.

# Appendix

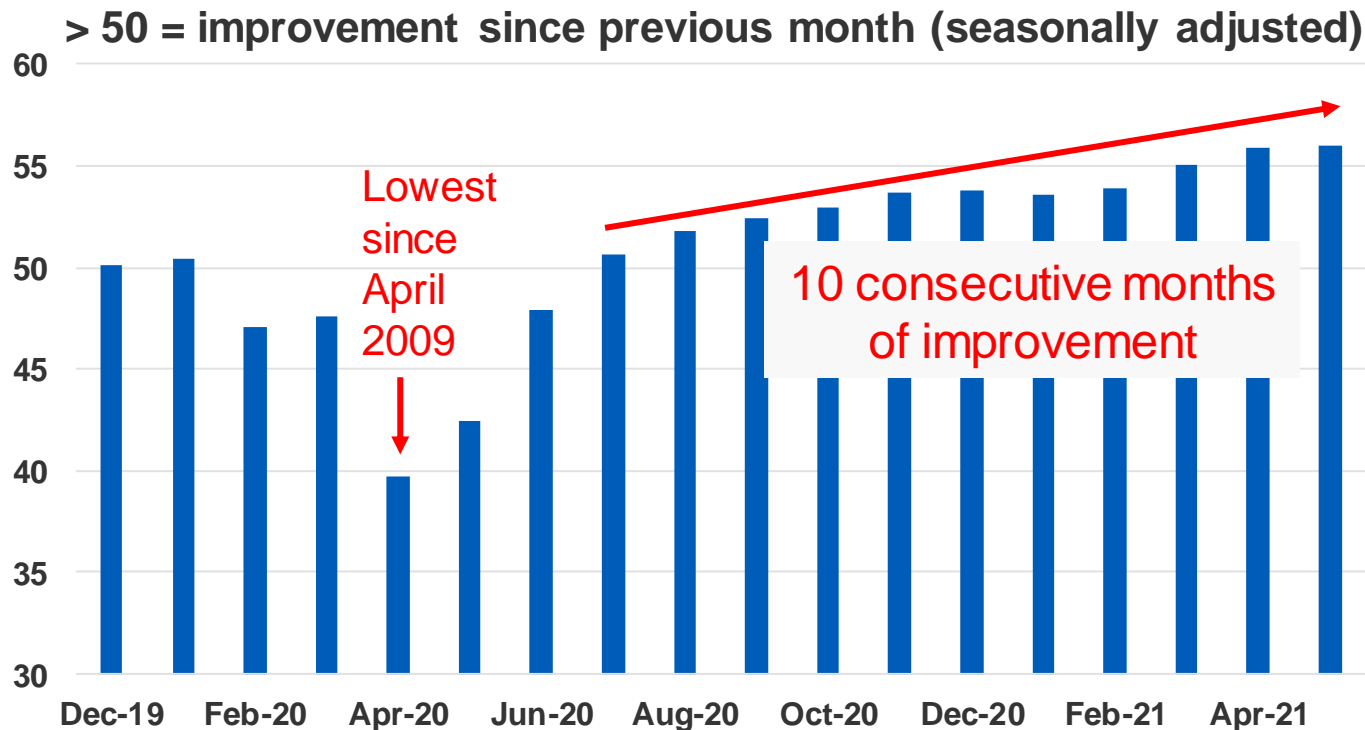
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# Long-Term Portfolio Month to Date Returns

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
January	0.77%	0.17%	1.51%	0.56%	-0.14%	0.64%	-2.01%	1.47%	1.33%	2.77%	0.76%	-0.71%
February	0.46%	0.53%	0.44%	0.05%	2.10%	1.71%	-0.43%	1.41%	-1.84%	0.90%	-1.77%	0.86%
March	0.21%	0.39%	-0.39%	0.68%	0.13%	-0.08%	3.33%	0.60%	0.07%	1.33%	-9.71%	0.09%
April	0.98%	1.39%	0.69%	1.10%	0.60%	1.02%	1.24%	1.14%	-0.01%	0.88%	4.56%	1.94%
May	-0.01%	0.39%	-0.40%	-1.29%	1.43%	0.03%	0.42%	1.04%	-0.60%	-0.14%	3.26%	1.04%
June	0.94%	-0.35%	0.64%	-2.46%	1.01%	-1.36%	0.17%	0.58%	-0.52%	2.43%	2.47%	
July	1.23%	1.53%	1.74%	1.40%	-0.54%	-0.07%	1.81%	1.26%	0.76%	0.69%	2.67%	
August	1.07%	0.21%	0.48%	-0.81%	1.29%	-2.79%	0.65%	1.00%	0.06%	-0.36%	1.84%	
September	0.70%	-1.42%	0.69%	1.83%	-1.76%	-1.76%	0.60%	0.43%	0.31%	-0.34%	-0.49%	
October	0.92%	0.94%	0.03%	1.54%	0.78%	2.80%	-0.21%	0.65%	-2.08%	0.87%	-0.33%	
November	-0.84%	-0.53%	0.55%	0.14%	0.51%	-0.28%	-0.52%	0.58%	-0.19%	0.96%	4.28%	
December	0.11%	0.72%	0.42%	0.20%	-1.20%	-1.25%	1.30%	0.96%	-0.50%	1.75%	3.23%	
	Greater than +1.5%		Between 0% and +1.5%			Between -1.5% and 0%			Less than -1.5%			

Estimated Data as of 31 May 2021

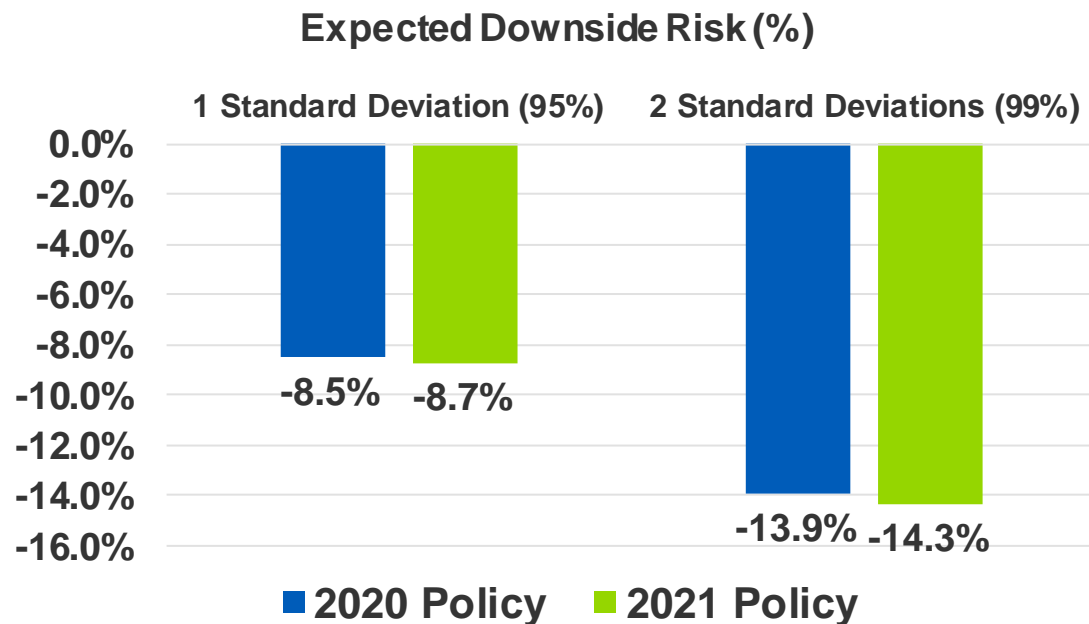
# Global Purchasing Manager Index (PMI)



# Long-Term Portfolio Returns

Exposure vs. Benchmark	2017	2018	2019	2020	YTD
<b>Fixed Income</b>	<b>6.5%</b>	<b>(1.1)%</b>	<b>8.2%</b>	<b>6.5%</b>	<b>2.3%</b>
<i>Barclays Multiverse</i>	<i>7.7%</i>	<i>(1.4)%</i>	<i>7.1%</i>	<i>9.0%</i>	<i>(2.3)%</i>
<b>Equity</b>	<b>25.3%</b>	<b>(9.2)%</b>	<b>20.2%</b>	<b>21.4%</b>	<b>7.9%</b>
<i>MSCI ACWI IMI</i>	<i>24.0%</i>	<i>(10.1)%</i>	<i>26.3%</i>	<i>16.3%</i>	<i>11.3%</i>
<b>Tactical</b>	<b>12.3%</b>	<b>2.1%</b>	<b>5.0%</b>	<b>10.2%</b>	<b>(3.3)%</b>
<i>ICE BofA ML 1-Year Trsy Note</i>	<i>0.6%</i>	<i>1.9%</i>	<i>2.9%</i>	<i>1.8%</i>	<i>0.1%</i>
<b>Multi-Exposure</b>	<b>14.7%</b>	<b>(2.0)%</b>	<b>16.6%</b>	<b>6.2%</b>	<b>1.2%</b>
<i>Credit Suisse Multi-Strategy <sup>1</sup></i>	<i>N/A</i>	<i>N/A</i>	<i>7.3%</i>	<i>5.6%</i>	<i>N/A</i>
<i>ICE BofA ML 91-Day T-Bill + 5%</i>	<i>5.9%</i>	<i>7.0%</i>	<i>7.4%</i>	<i>5.7%</i>	<i>2.1%</i>
<b>Long-term portfolio</b>	<b>11.7%</b>	<b>(3.2)%</b>	<b>12.4%</b>	<b>10.4%</b>	<b>3.3%</b>
<i>Policy Index</i>	<i>10.0%</i>	<i>(0.8)%</i>	<i>11.4%</i>	<i>9.9%</i>	<i>N/A</i>

# Annual Asset Allocation: Value at Risk (VaR)



- VaR is a probability-based measure of loss potential.
- The Committee reviewed several policy mixes in the context of updated capital markets assumptions for risk and return.
- The Committee confirmed a 2021 policy mix that modestly increases risk but remains conservative relative to other institutional investors.

Source: NEPC

# Thank you

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## Gavi Alliance Investment Policy Version 6.0

### DOCUMENT ADMINISTRATION

VERSION NUMBER	APPROVAL PROCESS	DATE
1.0	Prepared by: Investments	
	Reviewed by: Gavi Investment Committee	23 February 2009
	Approved by: Gavi Alliance Board	3 June 2009 Effective from: 3 June 2009
2.0	Reviewed by: Gavi Investment Committee	17 September 2009
	Approved by: Gavi Alliance Board	18 September 2009 Effective from: 18 September 2009
3.0	Reviewed by: Gavi Investment Committee	2 November 2011
	Approved by: Gavi Alliance Board	17 November 2011 Effective from: 17 November 2011
4.0	Reviewed by: Gavi Investment Committee	25 February 2014
5.0	Reviewed by: Gavi Investment Committee	12 February 2016 Effective from: 12 February 2016
6.0	Reviewed by: Gavi Investment Committee	11 May 2021
	Next review:	As and when required



## **1. Introduction**

- 1.1. The purpose of the Investment Policy (“Policy”) is to assist the Investment Committee (“Committee”), the Gavi Alliance Secretariat Investments Team (“Investments Team”) and Investment Managers (the “Managers”) in effectively managing the Gavi Alliance’s investments.
- 1.2. This Policy governs the management of the Gavi Alliance’s investment assets and should be read in conjunction with the Asset Allocation Statement. The assets include the short-term portfolio and the long-term portfolio (together referred to as the “Portfolio”). The Committee shall review and set this Policy in accordance with the Investment Committee charter and amend it as appropriate from time to time.<sup>1</sup>

## **2. Investment objectives**

- 2.1. The overall investment objective of the Portfolio is to provide a level of support as determined by the Gavi Alliance mission and its spending requirements.
- 2.2. The composition of the short-term portfolio will be predicated on a rolling 12-month cash forecast and current spending needs. The short-term investment objectives are the following:
  - Preserve the value and safety of the principal;
  - Maintain liquidity to meet anticipated operating requirements;
  - Provide for prudent diversification of investments to minimize credit and market risk exposure;
  - Generate income.
- 2.3. The composition of the long-term portfolio will be predicated on Gavi Alliance’s long-term financial forecasts and spending needs. Under the Committee’s oversight, the Investments Team shall ensure prudent diversification among asset classes and individual investments. The long-term investment objective should be achieved within acceptable risk levels, which shall include avoiding large short-term declines in market value.
- 2.4. The long-term investment objectives are the following:
  - Provide a prudent degree of growth in assets to support the organizational mission utilising a conservative total return approach;
  - Generate a positive real (after inflation) return;
  - Generate income and capital appreciation;
  - Provide for prudent diversification of investments to minimize correlation among investments strategies;
  - Maintain liquidity to meet both anticipated and unanticipated operating requirements;
  - Total portfolio volatility will be evaluated regularly as part of the asset allocation review.
- 2.5. Gavi Alliance assets will be managed to ensure compliance at all times with applicable statutes and regulations.
- 2.6. The reporting currency of the Gavi Alliance is the US dollar.

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<sup>1</sup> The words and expressions used in this Policy, unless the context requires otherwise, have the meaning attributed to them in the Board and Committee Operating Procedures, the Investment Committee Charter or Policy.

### **3. Investment management structure**

- 3.1. External Investment Managers will manage the Portfolio's assets according to the investment guidelines reviewed and approved by the Investments Team under the oversight of the Committee. Each Manager has discretion to manage the assets in their particular portfolio to best achieve the investment objectives and requirements, within the approved guidelines. Gavi's preference is to use pooled vehicles when possible in order to manage administrative and operational complexity and costs.
- 3.2. All Managers will be reviewed against benchmarks and peers on a regular basis. The Investments Team shall inform the Committee of all hiring and termination decisions prior to any binding agreement.

### **4. Short-term portfolio composition**

- 4.1. The core of the short-term portfolio will be liquid, fixed income instruments and strategies such as bank deposits, money market funds, low duration fixed income and short duration fixed income. The short-term portfolio receives contributions from donors that are typically spent within one year.
- 4.2. The following guidelines pertain to bank deposits:
  - Deposits shall be placed with banks with a minimum long-term rating of A/A2 or better as measured by at least two major credit rating agencies;
  - The maximum maturity of deposits is 3 months;
  - The maximum deposit placed with any single bank shall be 10% of the short-term portfolio or US\$ 200 million, whichever is higher. The basis for the maximum deposit excludes amounts in the UNICEF procurement account.
- 4.3. The following guidelines pertain to money market funds:
  - Funds shall have the highest rating of AAA/Aaa or the equivalent by at least two major credit rating agencies;
  - The general investment guidelines shall have limits for concentration, maturity and quality;
  - Funds shall offer daily liquidity terms.
- 4.4. The following guidelines pertain to low duration and short duration fixed income mandates:
  - Funds shall have a minimum credit rating of A, as measured by the composite profile of the underlying securities;
  - The general investment guidelines shall have limits for concentration, maturity and quality. Funds shall have monthly liquidity terms or better.

### **5. Long-term portfolio composition**

- 5.1. The core of the long-term portfolio will consist of four major market exposures categorized as: Fixed Income, Equity, Multi-Exposure and Tactical. The long-term portfolio has a total return focus, and the composition of the long-term portfolio will shift depending on the relative attractiveness of market exposures. As a result, the long-term portfolio has ranges for each of the major market exposures shown in

the Asset Allocation Statement. The Committee shall review the ranges on a regular basis.

5.2. **Fixed Income:** This market exposure will aim to serve as a source of current income, reduce the variability of the total market value of the long-term portfolio, and serve as a hedge against deflation. Fixed income includes domestic (i.e., US) and international securities. Fixed income strategies may be income focused or total return focus (income plus capital appreciation). They may investing across different type of instruments, credit quality, and duration, etc. The strategies may invest in, but are not limited to the following types of securities and instruments:

- Securities issued or guaranteed by the US government, its agencies, and instrumentalities
- Securities issued or guaranteed by US local, city and state governments and their agencies and instrumentalities
- Securities issued by non-US governments and entities, including both developed and emerging markets
- Public and private corporate debt
- Distressed debt
- Bank Loans
- Securitized debt such as mortgage backed or asset backed securities
- Collateralized debt obligations
- Non-investment grade debt
- Convertibles
- Interest rate futures and swaps

5.3. **Equity:** This market exposure will be used to provide growth to the long-term portfolio and diversify returns. Equity includes both domestic (i.e., US) and international securities (including emerging markets) and instruments, and the full range of market capitalizations. Equity strategies may invest in but are not limited to the following types of securities and instruments:

- Common (including American Depository Receipts)
- Preferred
- Private
- Warrants

5.4. **Multi-Exposure:** The Multi-exposure segment is a strategic allocation, primarily focused on diversification and volatility mitigation through the use of liquid, flexible global strategies. Managers in this space may utilise any or all asset class exposures listed within this document including but not limited to, equity, fixed income, currency and derivative exposures. The goal of this allocation is to deliver positive long-term absolute returns at reasonable levels of risk, as compared to focused asset class specific mandates. This is accomplished by investing in asset classes that the Manager(s) perceive to be undervalued as well as having the ability to hedge out risks they view unattractive, resulting in a broadly diversified and flexible underlying strategy exposure.

5.5. **Tactical:** This market exposure will be added opportunistically and used to provide diversification and the potential for improved risk adjusted return within the long-term portfolio. The tactical allocation is meant to take advantage of shorter term dislocations in the market, that are either not part of the strategic allocation, or are underrepresented within the portfolio. Generally, exposures in this allocation will have a life of 24-48 months, or until the opportunity fully evolves. Importantly, it is

understood that opportunities may not always be present, therefore, this allocation may remain at zero for some period of time. Tactical strategies include domestic (i.e., US) and international securities and instruments. Tactical strategies may invest in but are not limited to the following types of securities and instruments:

- Natural resources / commodities
- Real estate
- Infrastructure
- Royalties
- Distressed assets

5.6. Lastly, Investments may be either long-biased, long-short, trading oriented or a blend of all strategies.

## **6. Review of objectives and performance**

6.1. All objectives and policies are in effect until modified and approved by the Committee. These objectives and policies will be reviewed annually, or such other time as the Committee deems appropriate. Deviations from the Policy shall be brought to the attention of the next regularly scheduled Committee meeting, or earlier, if deemed significant.

6.2. On a monthly basis, the Investments Team shall review performance of the short-term and long-term portfolios. The Investments Team shall inform the Investment Committee of the results relative to the objectives and appropriate benchmark indices on a regular basis.

6.3. The Investments Team shall maintain regular communication with Managers in order to ascertain key business information such as but not limited to:

- Stability in retaining and attracting qualified investment professionals;
- Effectively managing asset growth;
- Gaining and retaining clients;
- Adhering to relevant regulations for the investment management industry;
- Adhering to the investment style and objectives sought by Gavi Alliance;
- Effectively maintaining, monitoring and refining operational and investment risk policies;
- Effectively maintaining, monitoring and refining business continuity and disaster recovery practices.

6.4. In addition, the Investments Team will perform regular, in-person due diligence of Managers at their office(s).

6.5. The Investments Team shall request individual Manager to inform them of any intent to change their guidelines prior to executing the change.

## **7. Supplemental Investment Policies**

7.1. The Committee shall approve any additional subordinate policies as it deems prudent and appropriate, including but not limited to:

- Asset Allocation Statement
- Sustainable Investment Policy