

SUBJECT: INVESTMENT COMMITTEE CHAIR REPORT

Category: For Information

Section A: Introduction

- This report provides the Board with a summary of preliminary investment portfolio performance through October 2021 and recent Investment Committee (“Committee”) activities and accomplishments, with a focus on those completed since the last Board update in June 2021. The Committee met four times in 2021.
- The total portfolio value is US\$ 1.7 billion of which US\$ 1.2 billion is invested in the long-term portfolio. Another US\$ 112 million is cash pending investment in the long-term portfolio. The remaining US\$ 461 million in the short-term portfolio represents donor contributions invested in high quality money market funds and deposits. While the short-term portfolio is under the purview of the Treasury team, it is included in this paper to provide the Board with a view into unrestricted assets. The aforementioned total does not include the UNICEF Procurement Account, COVAX funding or assets managed by the World Bank on behalf of the International Financing Facility for Immunisation (IFFIm).
- The estimated year-to-date long-term portfolio performance as of 31 October is +7.2% versus a policy index return of 3.7%. In September, the long-term portfolio exceeded its policy benchmark +5.9% versus 2.4%. The estimated year-to-date net investment income is US\$ 80 million. The four major components of the long-term portfolio – Equity, Fixed Income, Tactical and Multi-Exposure – all made positive contributions. However, Gavi’s Tactical and Multi-Exposure allocations which together constitute about a quarter of the portfolio had muted returns. Overall, the portfolio orientation has a heavier allocation to credit based on past Committee evaluations of risk and returns appropriate for Gavi. A re-calibration of risk and return is underway and will be covered later in the paper.
- Global equities embraced the upswing in global economic growth and solid corporate earnings reports, marching upward before pausing briefly in September to assess the risk of inflation. Key equity markets ascended to historic highs in October. The growth comparisons to a low base from the prior year mattered little to equity investors. Gavi’s equity allocation benefitted from the general equity trend returning +16.3% versus its benchmark of +16.8%. A hedged equity strategy was a drag on performance.
- The fixed income markets, on the other hand, vacillated. Using the US Treasury curve as a proxy, yields spiked in the first quarter, eased in the

second quarter and flattened in the third quarter. Most of the damage from the spike in yields was in long duration assets. Gavi benefitted from its lower than benchmark duration position. In addition, investing in private debt and securitised assets provided additional income. The Fixed Income composite delivered a +4.6% return versus a benchmark return of -4.1%.

- Continued global growth rests on the major economies of US and China. The pandemic continues to challenge economic activity in ways that will not be resolved until at least mid-2022. In the US confluence of pent-up consumer demand, chokepoints in goods transportation and worker demands have driven up prices across many sectors, resulting in inflation. Using the US as an example, the monthly inflation rate rose every month so far in 2021, last registering a monthly increase of +0.9% in October and a corresponding annual rate of +6.2%, a 31-year high.
- Inflation presents a conundrum for major central bankers as they evaluate whether or not their economies are sufficiently robust to withstand a rate hike and measure perceived risks against the inflation framework embodied in their respective monetary policies. Here we see a general divide between the developed versus developing economies where the latter initiated rate hikes earlier to maintain market credibility. In the US, the Federal Reserve's announcement of purchasing fewer assets and dampening the money in circulation, is a steppingstone but a firm intention to hike rates, will send the strongest message. If major central bankers fail to telegraph a clear plan for managing inflation the Investments team expects more volatility like that experienced in September.
- China's economy also suffers from the lasting effects of the pandemic. While China avoided a recession in 2020, its economic recovery in 2021 is uneven. Energy crunches and supply chain issues hit industrial production. More worrisome is the mounting debt in its property sector. At the beginning of 2021, China set a growth target of 6% and the uneven recovery puts this target at risk, and is reflected in equity returns. The long-term portfolio has exposure to China. However, several managers reduced exposure last year and into the first half of 2021, helping to avoid the worst of Chinese equity volatility.
- The tenure limits of several Board members will lead to a fifty percent turnover in the Investment Committee membership by the end of 2021, including a changeover in the Chair role in mid-2021 from Stephen Zinser to Afsaneh Beschloss. With additional insights and experiences at the Committee level, Gavi 5.0 in full swing, and increased complexity of programmatic needs, the Chair and the Investments team identified a need to re-calibrate the return and risk profile of the long-term investment portfolio. In conjunction with Gavi's investment consultant, the team developed a 15-question survey which subsequently went to seven external stakeholders (Committee members and one advisor) as well as four internal stakeholders (including the CEO). As part of the preparation, the

Investments team developed a supplemental report describing key areas of knowledge so that all stakeholders had a baseline understanding of the distribution of donor contributions and programmatic expenditures, financial forecasting, and the current portfolio objectives.

- The key takeaway is that the survey was a tool for an inclusive understanding of the Committee's risk and return appetite as they relate to return targets, the appropriate time horizon, the ability to withstand drawdowns, illiquidity and peer comparison. The degree to which each parameter is utilised will be reflected in the future asset allocation and expressed in the underlying composition of the investment portfolio.
- At the February 2022 Investment Committee meeting the Committee will review asset allocation scenarios that tie together returns, time horizon, drawdowns, illiquidity, and peer comparison. Their selection may impact the Investment Policy and Asset Allocation Statement. As required, such changes will be shared and reviewed with the Board in advance.
- Given the time allocated to the survey discussion other agenda items typically presented in November such as the annual risk and service provider rating will be reviewed in February 2022.
- At the June Board meeting, the Investment Committee shared an updated Investment Policy. After the midyear meeting, the Governance team noticed several minor previous edits had not been included in the version shared in June. Annex B in the advance meeting materials is the revised version. The revised Investment Policy comes into effect upon the update to the Board.

Annexes

Annex A: Investment Committee Chair report

Annex B: Revised Investment Policy

INVESTMENT COMMITTEE CHAIR REPORT

BOARD MEETING

Afsaneh Beschloss

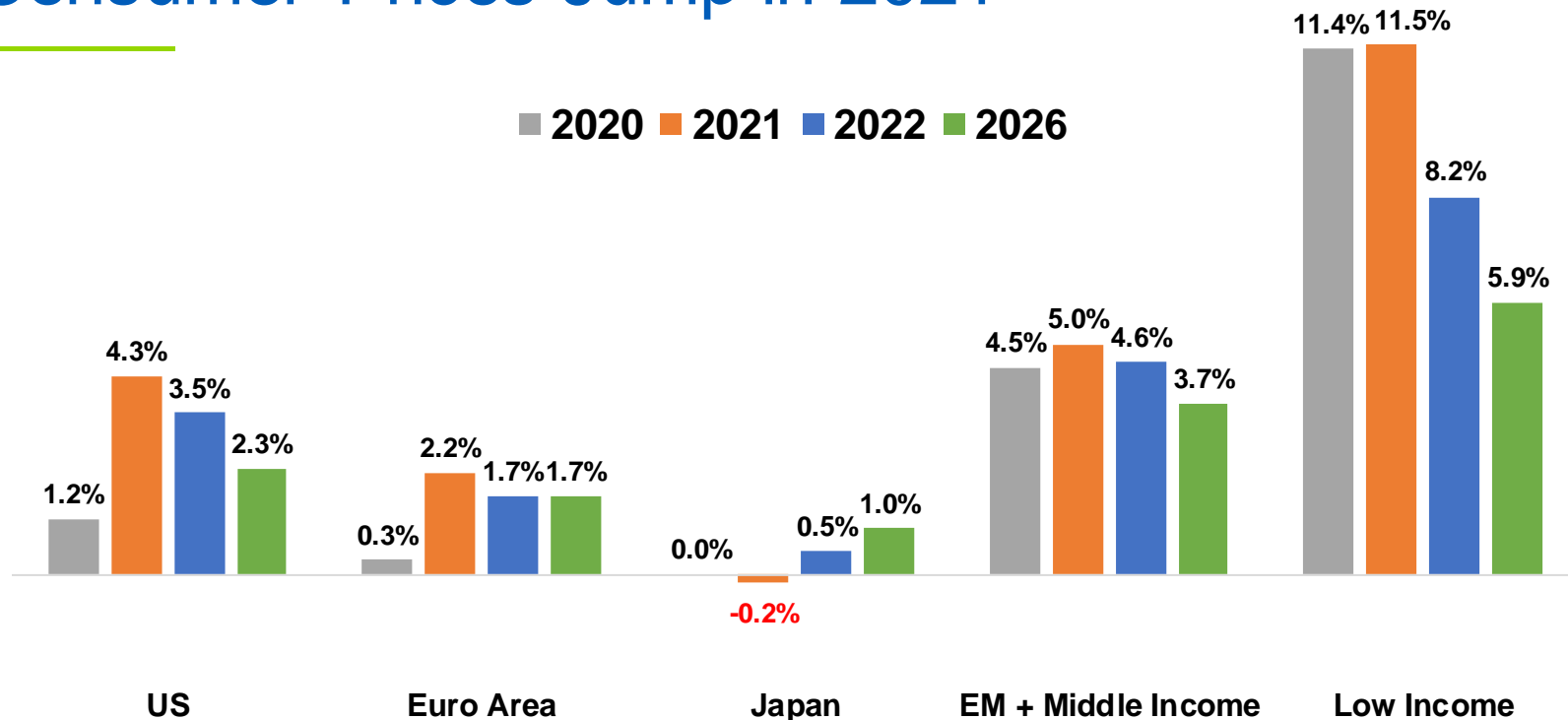
30 November – 2 December 2021, Virtual Meeting

Opportunities Remain But Risks Are Higher

- **Inflation risk:** Broad-based price increases are increasingly frustrating central bankers. Credibility is at stake.
- **Many developed equity markets at record highs:** Benefits of the re-opening trade continue but the tapering of accommodative monetary policy may result in a retreat from the highs.
- **Global indebtedness:** Global pandemic response added US\$ 24 trillion of total debt in 2020 hitting a high of US\$ 281 trillion¹. Additional debt in 2021 drove the high to almost US\$ 300 trillion, leaving governments with less fiscal space.

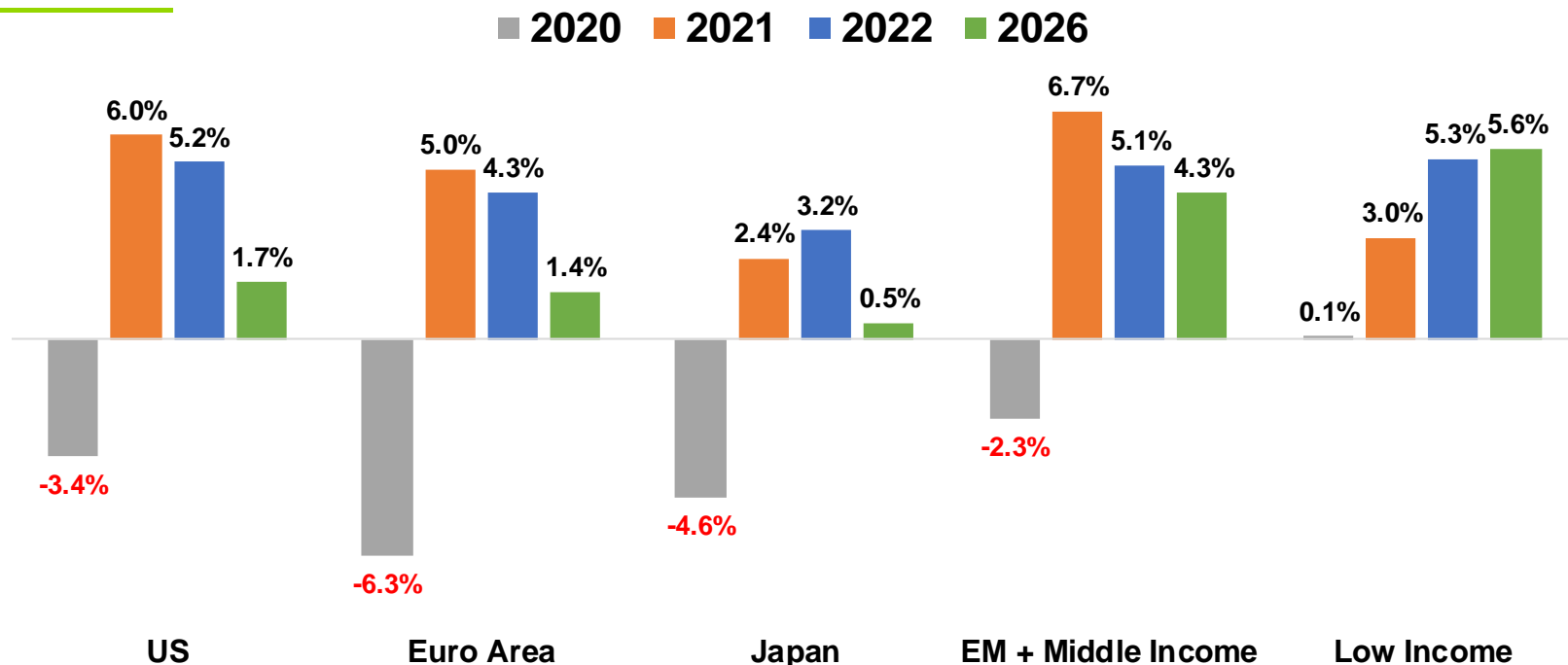
Source: Institute of International Finance, February 2021. Includes government, household, corporate and bank debt.

Consumer Prices Jump in 2021



Source: IMF World Economic Outlook, October 2021

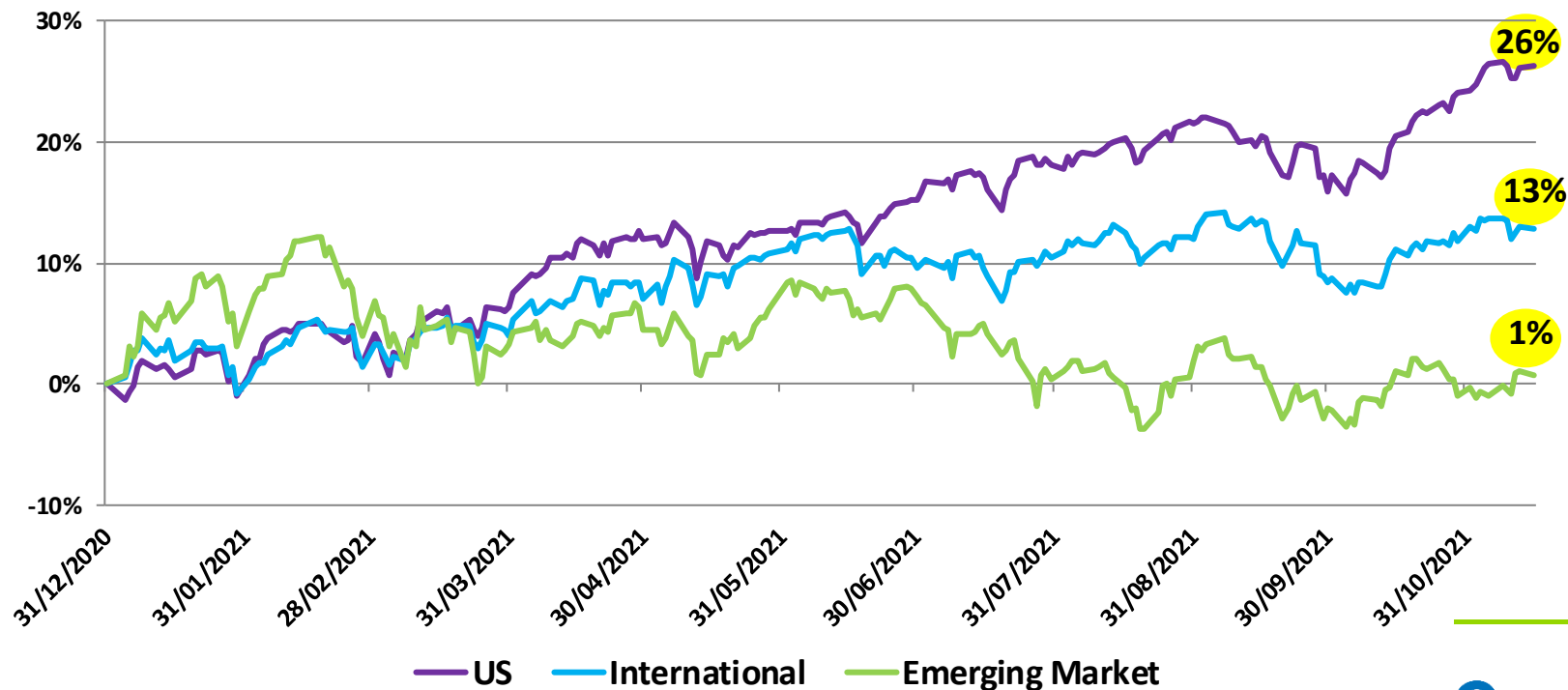
Real GDP Bounce in 2021



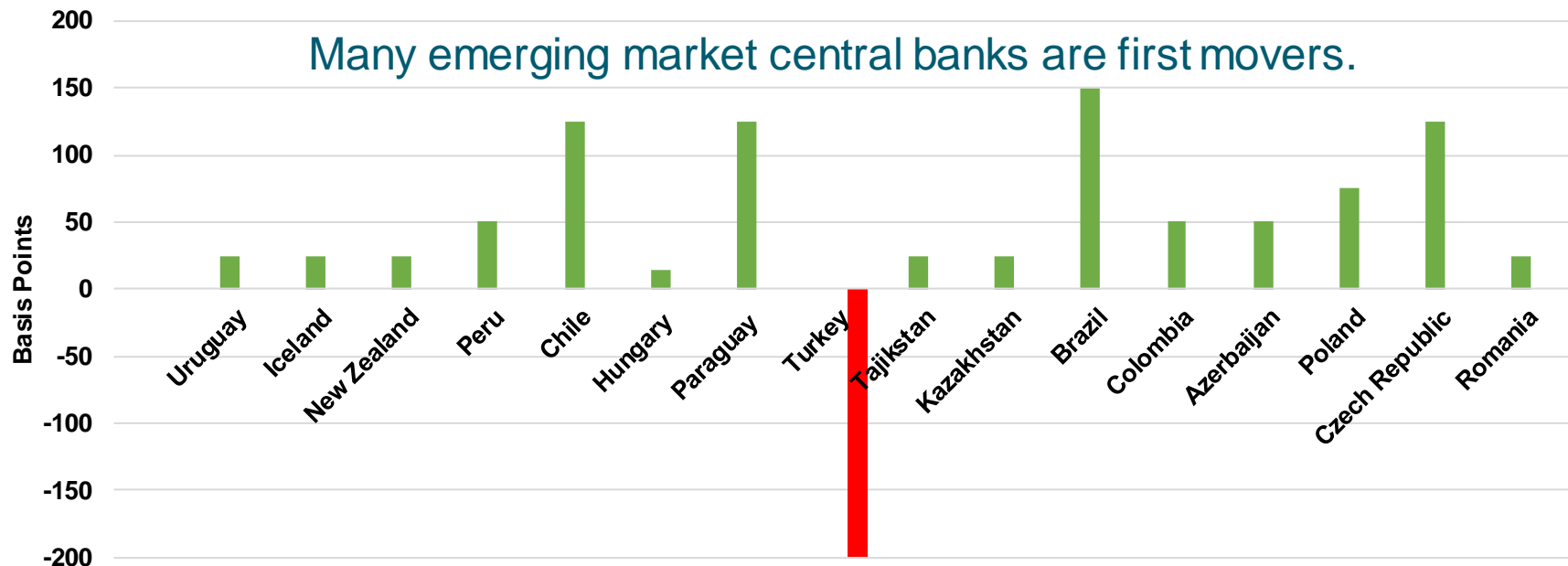
Source: IMF World Economic Outlook, October 2021

Developed Markets Were Strong, Emerging Markets Lagged

Annex A



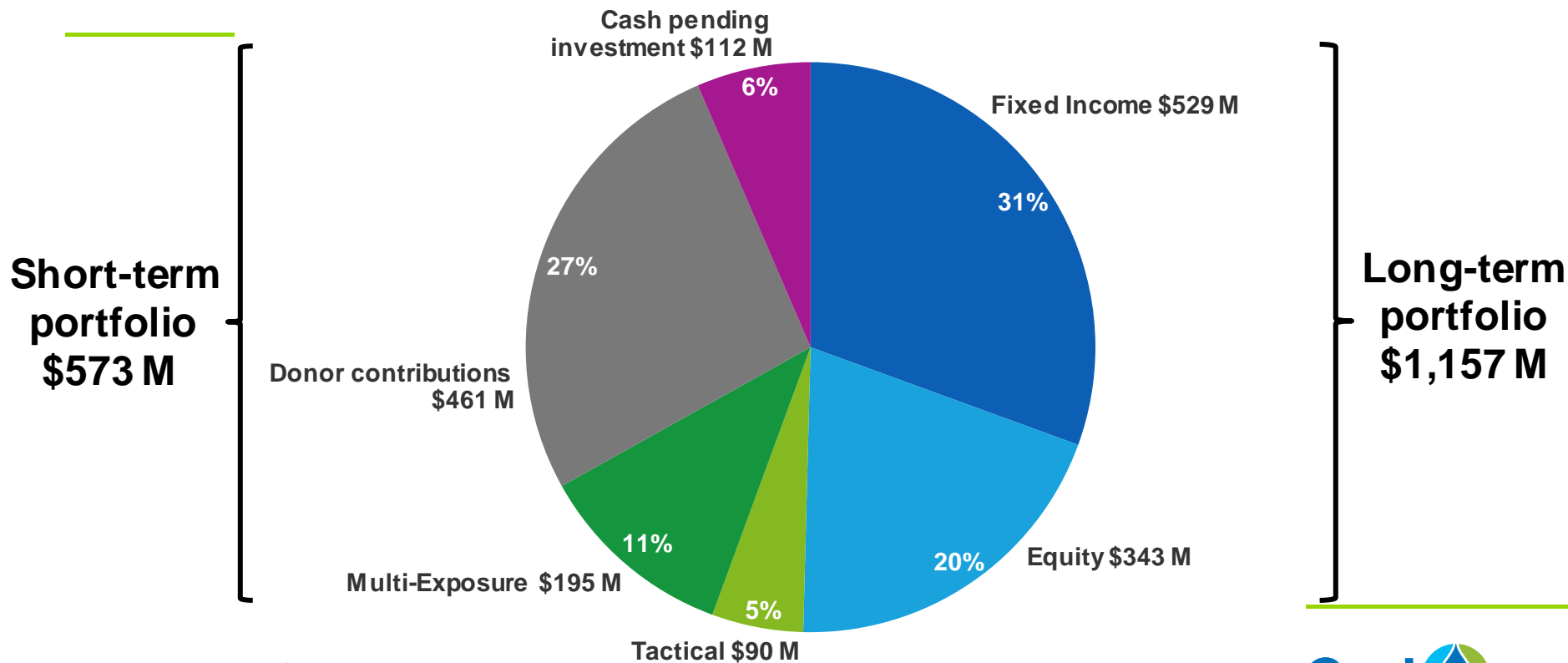
Central Bank Rate Moves in Oct.- Nov. 2021



Source: Central Bank News as of 9 November 2021.

Gavi Portfolio Allocation (US\$ 1.7 billion)¹

Annex A



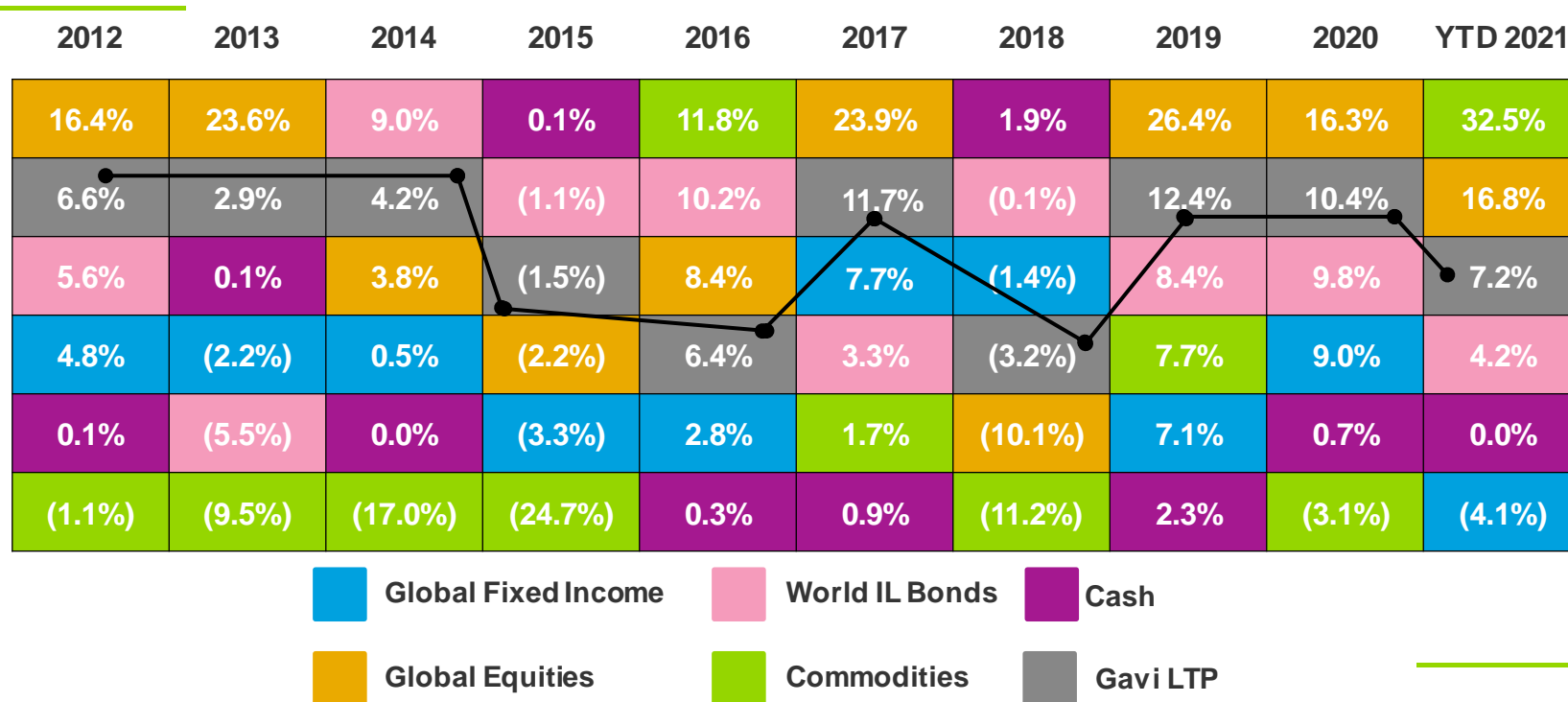
Estimated Data as of 31 October 2021

¹ Excludes UNICEF Procurement account of \$1,296M, IFFIm assets, and \$ 99 M in operating cash

Board meeting

30 November - 2 December 2021

Comparison of Indices Returns



Long-Term Portfolio Returns

Exposure vs. Benchmark	2017	2018	2019	2020	YTD
Fixed Income	6.5%	(1.1)%	8.2%	6.5%	4.6%
<i>Barclays Multiverse</i>	7.7%	(1.4)%	7.1%	9.0%	(4.1)%
Equity	25.3%	(9.2)%	20.2%	21.4%	16.3%
<i>MSCI ACWI IMI</i>	24.0%	(10.1)%	26.3%	16.3%	16.8%
Tactical	12.3%	2.1%	5.0%	10.2%	1.9%
<i>ICE BofA ML 1-Year Trsy Note</i>	0.6%	1.9%	2.9%	1.8%	0.1%
Multi-Exposure	14.7%	(2.0)%	16.6%	6.2%	2.3%
<i>Credit Suisse Multi-Strategy ¹</i>	N/A	N/A	7.3%	5.6%	6.2%
<i>ICE BofA ML 91-Day T-Bill + 5%</i>	5.9%	7.0%	7.4%	5.7%	4.2%
Long-term portfolio	11.7%	(3.2)%	12.4%	10.4%	7.2%
<i>Policy Index</i>	10.0%	(0.8)%	11.4%	9.9%	3.7%
<i>Consumer Price Index ²</i>	2.1%	1.9%	2.3%	1.4%	6.2%

Significant increase in year-over-year US inflation compared to prior calendar years.

Estimated Data as of 31 October 2021

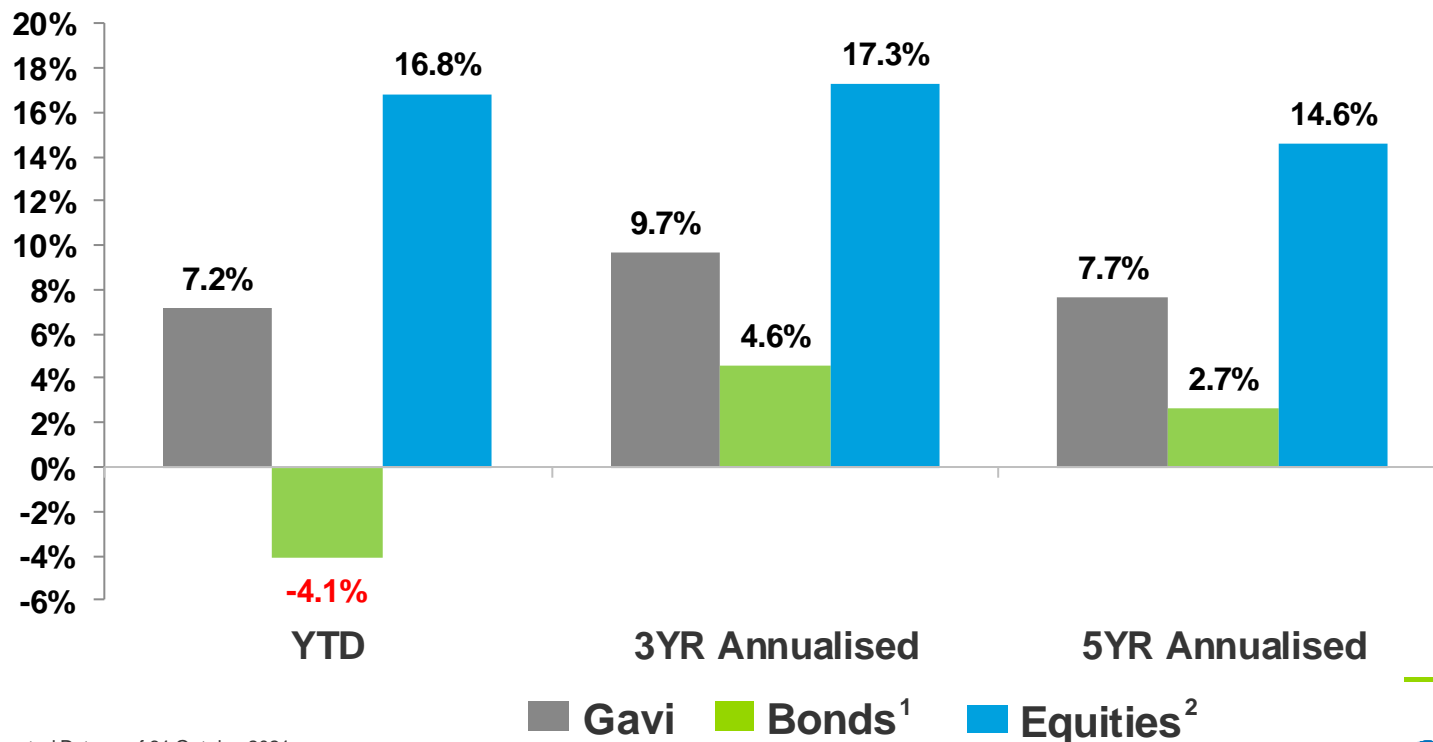
(1) Benchmark not implemented until March 2019

(2) Inflation shown for calendar year except for 2021 which is year-over-year as of October month-end

Board meeting

30 November - 2 December 2021

Long-Term Portfolio Performance



Estimated Data as of 31 October 2021

Source: Bloomberg, internal estimates

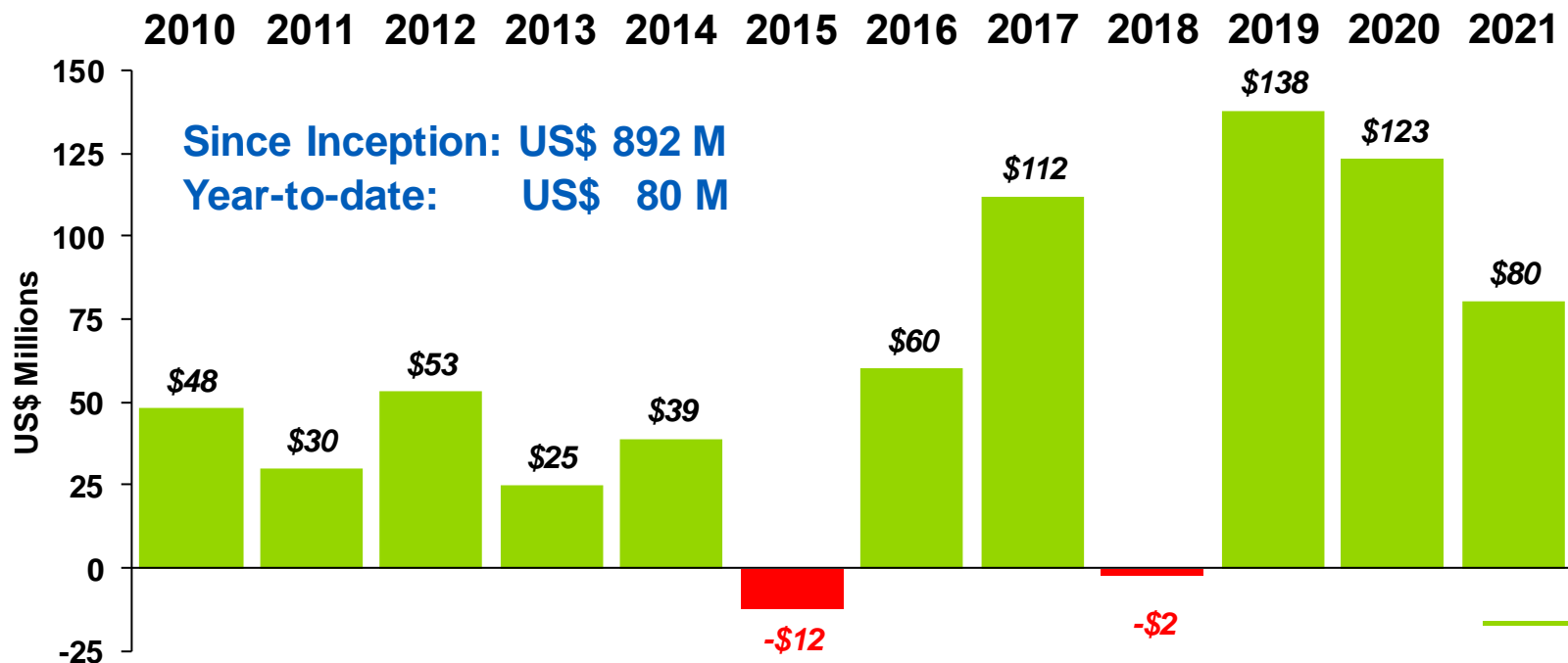
(1) Barclays Multiverse is a broad, global fixed income index.

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

Board meeting

30 November - 2 December 2021

Net Investment Income: Contribution to Mission



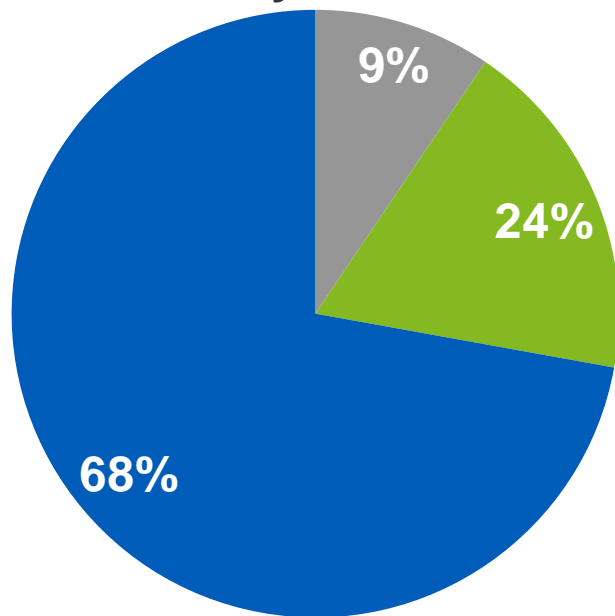
Estimated Data as of 31 October 2021

Board meeting
30 November - 2 December 2021

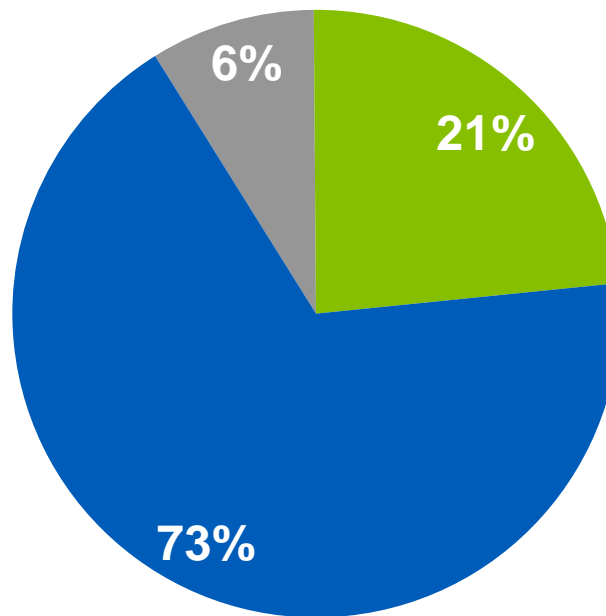
Long-Term Portfolio Liquidity

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

May 2021



October 2021



Key Accomplishments 2H 2021

Maintain Risk Control	The portfolio delivered positive returns in the second half despite high asset values and heightened risk environment. The portfolio withstood a brief interruption during September's market volatility.
Expand Diversity, Equity and Inclusion	Continue review of diversity, equity and inclusion (DEI). Annual risk review will include a manager review of their DEI implementation.
Deepen Sustainability	Additional research continues on sustainable investment strategies. About 20% of our long-term portfolio is already in sustainable investments.
Transition New Chair	Afsaneh Beschloss assumed the Investment Committee Chair role mid-year. She and the Investment Committee members who joined this year bring additional insights and institutional networks.

Key Objective in 1H 2022: Revisit Asset Allocation

Building Blocks + Portfolio Construction = Asset Allocation



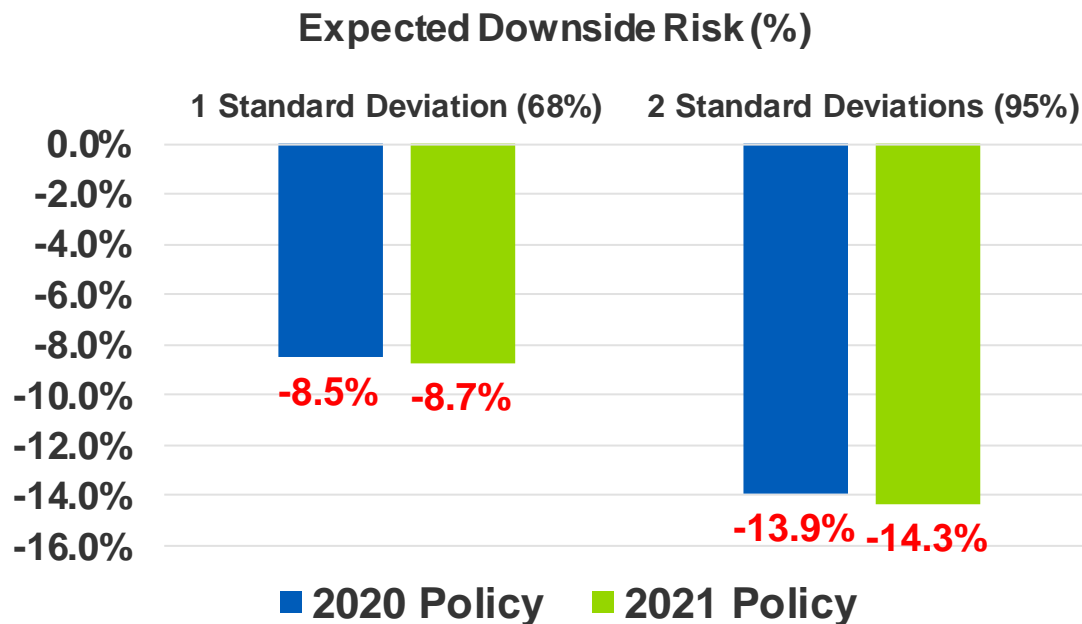
Appendix

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%	0.88%
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%	1.09%
June	0.94%	-0.35%	0.64%	-2.46%	1.01%	-1.36%	0.17%	0.58%	-0.52%	2.43%	2.47%	1.02%
July	1.23%	1.53%	1.74%	1.40%	-0.54%	-0.07%	1.81%	1.26%	0.76%	0.69%	2.67%	0.69%
August	1.07%	0.21%	0.48%	-0.81%	1.29%	-2.79%	0.65%	1.00%	0.06%	-0.36%	1.84%	1.31%
September	0.70%	-1.42%	0.69%	1.83%	-1.76%	-1.76%	0.60%	0.43%	0.31%	-0.34%	-0.49%	-0.52%
October	0.92%	0.94%	0.03%	1.54%	0.78%	2.80%	-0.21%	0.65%	-2.08%	0.87%	-0.33%	1.23%
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 October 2021

Annual Asset Allocation: Value at Risk (VaR)



- VaR is a probability-based measure of loss potential.
- The Committee confirmed a 2021 policy mix that modestly increases risk but remains conservative relative to other institutional investors.
- In February 2022 the Committee will review new policy mixes in consideration of recent risk and strategy discussions.

Thank you





Gavi Alliance Investment Policy Version 7.0

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	15 May 2018 Effective from: 7 June 2018
7.0	Reviewed by: Gavi Investment Committee	8 September 2021 Effective 2 December 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.¹

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 and annual portfolio risk reviews.
- 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.

¹ 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. The 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 cost and operational complexity.
- 3.2. All Managers will be reviewed against benchmarks and peers for relative performance and opportunities 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 investments. Fixed income strategies may be income focused or total return focus (income plus capital appreciation). Managers of fixed income strategies may invest across a spectrum of sectors, credit quality, 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 Depositary 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 as 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, both public and private:

- 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 Committee of the results relative to the objectives and appropriate benchmark indices on a regular basis.

6.3. Consistent with the Investment Policy Statement, the Investments team is authorised to re-balance the long-term portfolio to ensure adherence to the asset allocation targets and ranges approved by the Investment Committee for each market exposure. The Investments team will provide timely updates to the Investments Committee of any re-balancing activities.

6.4. The Investments Team shall maintain regular communication with the 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.

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

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