

Gavi Alliance Investment Committee Meeting

9 September 2020

Virtual Meeting

1. Chair's report

- 1.1 Finding a quorum of members present, the meeting commenced at 14.00 Geneva time on 9 September 2020. Stephen Zinser, Investment Committee Chair, chaired the meeting.
- 1.2 Standing declarations of interest were tabled to the Committee (Doc 01a in the Committee pack).
- 1.3 The minutes of the 12 May 2020 meeting were tabled to the Committee for information (Doc 01b). The minutes had been circulated and approved by no-objection on 3 July 2020.
- 1.4 The Committee noted its forward work plan (Doc 01c).
- 1.5 The Chair reported that Gavi's long-term portfolio performance was down -10.6% at the end of March 2020 and it had risen to +1.6% as of 31 July which is slightly behind the policy index. The lag against the policy index this year is a function of the weak dollar (the policy index contains significant non-US assets and Gavi invests predominantly in USD assets) and an underweight duration posture in Fixed Income. The Chair noted the portfolio performance should be close to +4% as of today and the Committee will continue to watch the markets and monitor portfolio performance.

2. Manager presentation

- 2.1 Ms Jeanne Shen, Chief Investment Officer, introduced the asset manager (Doc 02) and highlighted that the manager has been in the portfolio since 2017 but its relationship with Gavi began in 2013. She noted the purpose of the presentation is to explore investment opportunities that take advantage of likely future dislocations in the fixed income market.
- 2.2 Senior representatives of the firm's strategy discussed the fund, the team, the impact of COVID-19, target returns, market risks and opportunities, and outlined their experience and approach to alternative investments (Annexes A and B, Doc 02).

Discussion

- The Committee asked various questions related to expected returns, size of drawdowns, timing of investments, and associated risks.
- The Committee further discussed the firm and fund. A Committee member enquired about other firms with similar investment strategies and the Secretariat noted it had reviewed other funds but the presenting manager seemed best fit due to its size, capabilities and Gavi's prior experience successfully working with the firm.
- The Chair noted that given the investment window of the fund, a specific request for approval may be presented to the Committee soon. It was also noted that it will require tying up invested capital but not for an unreasonable timeframe.
- The Secretariat noted this type of strategy is not currently represented in the long-term portfolio but that it could fit well into the private debt allocation.
- A Committee member requested that any proposal to the Committee incorporate liquidity considerations in the context of Gavi's overall portfolio.

3. Investment portfolio review

- 3.1 Jeanne Shen, Chief Investment Officer, updated the Committee on the April through July 2020 performance of the investment portfolio, manager activities and related transactions (Doc 03).
- 3.2 Ms Shen discussed fluctuations in the market including oscillations in the technology and energy sectors. She noted that large fiscal stimulus packages and accommodative monetary policy helped fuel a rebound in financial markets during the second quarter (2Q) of 2020. She also highlighted the increasing focus on sustainable investing.
- 3.3 In connection with the market performance, Ms Shen highlighted that equities and particularly U.S. equities had the strongest recoveries in 2Q; fixed income returns also performed well.
- 3.4 Ms Shen noted the July year-to-date performance for the long-term portfolio landed at +1.6% against the policy index return of +2.6%.
- 3.5 Ms Shen reminded the Committee that Gavi has US\$ 77 million cash pending investment in the long-term portfolio.
- 3.6 She presented the portfolio allocation versus the target allocation and noted the gaps are minimal. She highlighted the biggest gap was related to the Multi-Exposure allocation and noted the challenges finding strategies that provide diversification and low correlation with the balance of the portfolio. The Multi-

Exposure target allocation will be considered as part of the annual asset allocation review process later this year.

- 3.7 Ms Shen shared updates regarding recent and upcoming transactions noting 2Q was a busy period with another new strategy to be funded in the coming week.
- 3.8 She discussed key characteristics of each portfolio exposure, the performance of the total portfolio, and individual manager performance. The risk return characteristics of the portfolio were also highlighted.
- 3.9 In relation to long-term portfolio returns, Ms Shen noted that the fixed income and multi-exposure composites returns lagged their benchmarks, while the equity and tactical composites returns outperformed their respective benchmarks.
- 3.10 Ms Shen reported that the total Gavi portfolio had generated an estimated net investment income of approximately US\$ 26.2 million year-to-date, with over US\$ 713 million since inception.
- 3.11 Ms Shen shared updates regarding several managers. The Committee approved the following recommendations:
 - 3.11.1 To terminate a Credit-Linked Hedge Fund manager due to its slow recovery from poor performance in 1Q 2020; and
 - 3.11.2 To terminate a Relative Value Risk Parity manager due to limited opportunity set going forward for risk parity strategies and the manager not performing as expected.
- 3.12 Ms Shen requested guidance in relation to a contingent approval of a US\$ 25 million investment in a US infrastructure fund, and noted the manager presented to the Committee in September 2019 on the opportunity set.
- 3.13 Ms Shen presented the results of the December 2019 Sustainable Investing (SI) screen and noted one manager exceeded the 2% threshold.
- 3.14 Ms Shen highlighted that companies flagged as ineligible due to human rights violations are often tied to the energy sector.
- 3.15 Ms Shen recommended adding racial inclusion as a new annual risk rating criterion to Gavi's Annual Risk Rating review of investment managers.
- 3.16 To conclude, she updated the Committee on the 2020 due diligence meeting schedule.

Discussion

- In response to questions from the Committee about geopolitical uncertainty influencing portfolio positioning, NEPC noted markets ultimately look through political uncertainty and as long-term investors with a conservative portfolio, it would not recommend making any major allocation shifts at this time.

- The Committee discussed the varying levels of responsiveness from managers referenced in the SI screen. The Committee recommended the Secretariat conduct more due diligence on specific ESG funds that are functionally aligned with Gavi's SI agenda and commented that Gavi's screening criteria and expectations should be clearly spelled out at the outset when hiring new managers.
- The Committee approved the addition of racial inclusion in the annual risk rating review exercise.

4. Sustainable Investment Policy

- 4.1 Mr Liron Sharon, Senior Manager, Investments, reminded the Committee of options chosen in 2019 by the Committee to mitigate climate change risk in the portfolio; he updated the Committee on actions taken to date.
- 4.2 He discussed the lack of consistent guidelines regarding how asset holders manage policies around fossil fuel holdings. He noted that most managers in the portfolio, that are subject to screens, invest in fossil fuel related industries.
- 4.3 Mr Sharon presented results of the review done by the Investments team, noting fossil fuel allocation by indices and fund managers.
- 4.4 He then shared recommendations to establishing a separate 5% threshold for fossil fuel holdings, amending the language of the Sustainable Investment Policy to better define fossil fuel exposure, and including holdings in the legacy category when a holding is found ineligible for both a legacy screen and a fossil fuel screen.
- 4.5 Mr Sharon noted that the threshold will be reviewed on an annual basis and that the Secretariat is looking at reviewing ESG fund options to replace existing strategies, if needed. He also shared that the Secretariat is assessing interest from managers on opening funds that adopt at the outset Gavi's exclusionary screens.

Discussion

- The Committee recognised the challenges with varying definitions of ESG practices and agreed the Secretariat should continue to rely on Sustainalytics when screening holdings.
- In relation to the proposed 5% threshold in the SIP (see 4.4 above), the Committee discussed how the exclusion rate should ideally decrease as more investment managers implement ESG practices.
- In response to a question from a Committee member, the Secretariat clarified the 5% threshold means a manager should have less than 5% portfolio holdings in fossil fuels, consisting of both oil and gas, and thermal coal. Allocations to oil and gas companies has been a larger issue compared to thermal coal.

- The Committee discussed granting flexibility with the 5% threshold to allow managers to work with Gavi over a set timeframe to work toward the 5% goal, if needed. It was also noted that there should be a more holistic approach to evaluate the portfolio's ESG exposure.
- The Committee discussed taking action beyond policy changes to ensure there is alignment of portfolio managers to Gavi's ESG approach. The Committee suggested reviewing managers that fully qualify with Gavi's standards and identifying current managers that, in practice, are not sufficiently aligning with Gavi's ESG priorities. The Secretariat confirmed it will develop a prioritisation process and bring options to the Committee at its next meeting.
- The Committee discussed additional options for monitoring and evaluating climate change risk.

Decision One

The Gavi Alliance Investment Committee reviewed and **approved** the Sustainable Investment Policy as set out in Annex C, Doc 04.

5. Any other business

- 5.1 After determining there was no further business the meeting was brought to a close.

Ms Brenda Killen
Secretary

Attachment A

Participants

Committee Members

- Stephen Zinser, Chair
- Afsaneh Beschloss
- Margaret Hamburg
- William Roedy
- David Sidwell
- Yibing Wu

Observers

- George W. Wellde Jr.

Secretariat

- Assietou Sylla Diouf
- Brenda Killen
- Sandra Gonzalez Nderstigt
- Liron Sharon
- Jeanne Shen
- Kimberly Villa
- Melissa Wolfe

Guests

- Jonathan Dorfman (Napier Park)
- Lily Fayerweather (NEPC)
- Sebastian Grzejka (NEPC)
- Nadja Marcoz (NEPC)
- Michael Micko (Naper Park)
- Dulari Pancholi (NEPC)