Objectives and goals

- Macro Environment and Market Commentary
- Portfolio and Performance Review
- Key 2016 Priorities
Macro environment: heightened uncertainty

- US: Prolonged expectations for a central bank rate hike, pace of rate rises beyond December 2015 unclear
- China: Less upbeat economic growth statistics, equity volatility and surprise currency devaluation
- Oil: Organized supply from oil producers no longer intact
40-year history: US Fed funds rate

Central bank keeps key rate at 0.25% since December 2008

Data as of 16 November 2015
Source: Bloomberg – FDTR Index
Equity market volatility: 2 largest economies

Peak to Trough:
- **CSI 300 Index**: 65.9%
- **S&P 500 Index**: 12.8%

Data as of 16 November 2015
Source: Bloomberg – SHSZ300 Index and SPX Index

Board meeting
2-3 December 2015
Market commentary

• Equity valuations are less attractive, particularly in North America.

• We are late in the market cycle for fixed income; yields are more likely to go up than down.

• Low yields suggest very modest fixed income returns going forward; with lower yields there is also a higher price sensitivity to changes in yields (e.g. a modest change in yields can lead to large loss in price).

• Corporate credit markets are showing signs of deteriorating fundamentals; current conditions require more investor diligence.
## Portfolio objectives

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<tr>
<th>Short-term</th>
<th>Long-term</th>
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<td>• Maintain <strong>liquidity</strong> to meet anticipated operating requirements.</td>
<td>• Generate a <strong>positive real (after inflation)</strong> return.</td>
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<td>• Provide for prudent diversification of investments to minimize credit</td>
<td>• Generate income for current spending.</td>
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<td>and market risk exposure.</td>
<td>• Provide a prudent degree of <strong>growth</strong> in assets to support future</td>
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<td>• Generate income.</td>
<td>spending.</td>
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<td></td>
<td>• Provide for <strong>prudent diversification</strong> of investments to minimize</td>
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<td>correlation among investment strategies.</td>
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<td>• Maintain liquidity to meet unanticipated operating requirements.</td>
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<td>• Maintain overall portfolio volatility within acceptable risk levels.</td>
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Key 2016 priorities

- **Internal Audit:**
  An internal audit of the investment management processes is currently being finalised. A summary of any significant findings will be provided to the Investment Committee in February 2016.

- **Socially Responsible Investment (SRI) Policy:**
  Continue semi-annual screening and initiated practice of enhanced engagement with managers breaching 2% limit.¹

¹ Screens include tobacco, weapons, cluster munitions, international human rights and child labour.
Strategic asset allocation review – Direction of travel

Following an extensive RFP process and the hiring of a new strategic consultant, the Investment Committee discussed asset allocation at the November meeting.

• Reviewed three scenarios for improving risk-reward ratio and asked for further refinement of the most conservative option.

• Agreed with recommendation to add more absolute return and market neutral strategies (e.g., less market directional style of investing).

• Agreed with recommendation to add a multi-exposure category for strategies that invest across exposures; Gavi already has such investments.

• Equity and Tactical exposure ranges likely to be lower.