INVESTMENT COMMITTEE CHAIR REPORT

BOARD MEETING
Stephen Zinser
22-23 June 2016 Geneva
OBJECTIVES AND GOALS

• Macro Environment and Market Commentary
• Portfolio and Performance Review
• Key Highlights 1H2016
• Key 2H2016 Priorities
MACRO ENVIRONMENT: UNPRECEDENTED

- Central Bank policies: diminishing returns from key market-friendly initiatives (quantitative easing).

- Fiscal spending and structural reforms: government spending, tax and regulatory reforms may be the next levers to jump start economic growth.

- Inflation: modest now, but poses a threat if policymakers fumble.

- Brexit: the immediate market hurdle.
MARKET COMMENTARY

- Equity market performance is mixed, reflecting lackluster economic prospects.

- Sovereign bonds are seen as risk havens and yields have been pushed to record low levels. The eventual unwinding of this bubble may be volatile.

- US fixed income markets which have positive, nominal yields are seen as attractive on a relative basis.
MUTED EQUITY RETURNS

Data as of 16 June 2016
Source: Bloomberg, local currency terms

<table>
<thead>
<tr>
<th>Region</th>
<th>% (Year-To-Date)</th>
<th>% (1 Year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>(1.5)</td>
<td>(13.7)</td>
</tr>
<tr>
<td>Europe</td>
<td>(23.7)</td>
<td>(18.4)</td>
</tr>
<tr>
<td>Japan</td>
<td>(18.9)</td>
<td>(18.8)</td>
</tr>
<tr>
<td>China</td>
<td>(42.2)</td>
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SOVEREIGN YIELD CURVES

Data as of 16 June 2016
Source: Bloomberg

**Japan**: Negative yield beyond 15-year maturity

**Germany**: Negative yield beyond 10-year maturity

**Switzerland**: Negative yield beyond 30-year maturity

**US**: Positive across all maturities
## PORTFOLIO OBJECTIVES

<table>
<thead>
<tr>
<th>Short-term</th>
<th>Long-term</th>
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<tbody>
<tr>
<td>• Maintain <strong>liquidity</strong> to meet anticipated operating requirements.</td>
<td>• Generate a <strong>positive real (after inflation) return</strong>.</td>
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<tr>
<td>• Provide for prudent diversification of investments to minimize credit and market risk exposure.</td>
<td>• Generate income for current spending.</td>
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<tr>
<td>• Generate income.</td>
<td>• Provide a prudent degree of <strong>growth</strong> in assets to support future spending.</td>
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<tr>
<td></td>
<td>• Provide for <strong>prudent diversification</strong> of investments to minimize correlation among investment strategies.</td>
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<td></td>
<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 HIGHLIGHTS 1H2016

Internal Audit:
The first internal audit of the investment management processes was in final draft.  
**Update:**  
Internal audit report shared with the Investment Committee in February. Out of 5 issues, one is closed out and the remainder are in active stages of remediation. There were no high risk issues.

Socially Responsible Investment (SRI) Policy:
Continue semi-annual screening and initiated practice of enhanced engagement with managers breaching the 2% limit.¹  
**Update:**  
The Investments team screened 31 December 2015 holdings and engaged with 3 managers that breached the 2% limit. Health-related breaches were among the concerns. An internal evaluation recommended the termination of 2 managers, which the Committee accepted.

¹ Screens include tobacco, weapons, cluster munitions, international human rights and child labour.
KEY HIGHLIGHTS 1H2016 (cont.)

Asset allocation review:
The Investments team successfully integrated a new strategic consultant, hired in 4Q2015, to provide independent performance reporting, deepen due diligence resources and support asset allocation reviews.

Update:
Revised the Investment Policy and Asset Allocation Statement to include a multi-exposure category and re-articulated the ranges for exposures while maintaining a conservative risk-reward objective.

1 Screens include tobacco, weapons, cluster munitions, international human rights and child labour.
KEY 2H2016 PRIORITIES

• **Mitigate volatility:** Continue to add more absolute return and market neutral strategies, and reduce exposure to market directional strategies.

• **Strengthen monitoring practices:** Add more risk metrics to enhance existing performance reporting and focus on rationalizing the total number of managers in portfolios.

• **Expand SRI network:** Reach out to leading practitioners and institutional investors. Find new channels for information sharing.
THANK YOU