INVESTMENT COMMITTEE
CHAIR REPORT

BOARD MEETING
Stephen Zinser
28-29 November 2018, Geneva, Switzerland
Market Sentiment: Apprehensive

Risks to global growth mounting: Growth in advanced economies is slowing and a US recession is possible in the next 18 to 24 months.

Geopolitical risks rising: Markets are paying close attention to Sino-US trade tensions, Brexit and the Italy/EU dispute.

Normalisation of monetary policy: US Federal Reserve hikes and balance sheet reduction is draining liquidity. European Central Bank’s buying programme will terminate in December 2018.
Market Commentary

**Equity markets:** Systemic de-risking, technology valuation fears and peaking corporate earnings have contributed to recent volatility.

**Fixed income:** Niches such as short-dated fixed income delivered year-to-date positive performance. However, fixed income is not providing a ballast to equity volatility.

**Currencies:** US dollar marched higher in 2Q and 3Q. Emerging market currencies were exceptionally weak.

**Commodities:** In a reversal, oil entered a bear market (>20% drop from its highest price), reflecting worries about over-supply and global growth.
10-year US Treasury Yields

Higher yields initially hurt price levels but subsequently provided increased income on a compounded basis.

Data as of 31 October 2018
Source: Bloomberg
### Fixed Income Index Returns

<table>
<thead>
<tr>
<th>Category</th>
<th>2017</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Aggregate</td>
<td>3.5%</td>
<td>-2.4%</td>
</tr>
<tr>
<td>Benchmark*</td>
<td>7.7%</td>
<td>-3.4%</td>
</tr>
<tr>
<td>US High Yield</td>
<td>7.5%</td>
<td>0.9%</td>
</tr>
<tr>
<td>EM Corporate</td>
<td>8.0%</td>
<td>-2.8%</td>
</tr>
<tr>
<td>EM Sovereign</td>
<td>9.3%</td>
<td>-5.4%</td>
</tr>
</tbody>
</table>

*Barclays Multiverse Total Return Index Value Unhedged USD
Data as of 31 October; Source: Bloomberg

Board meeting
28-29 November 2018
Equity Index Returns

MSCI ACWI IMI is a broad global equity index

Data as of 31 October 2018; Source: Bloomberg

**S&P**
- Benchmark*: 23.9%
- Asia Pacific: 32.1%
- Europe: 10.8%
- Frontier Markets: 31.8%
- Emerging Markets: 37.5%

**YTD**
- Benchmark*: 1.4%
- Asia Pacific: -14.0%
- Europe: -7.0%
- Frontier Markets: -18.3%
- Emerging Markets: -17.5%

*MSCI ACWI IMI is a broad global equity index

Board meeting
28-29 November 2018
**Tactical Index Returns**

- **Commodities**
  - 2017: -2.9%
  - YTD: -4.1%

# Portfolio Objectives

## Short-term
- Maintain **liquidity** to meet anticipated operating requirements.
- Provide for **prudent diversification** of investments to minimise credit and market risk exposure.
- Generate income.

## Long-term
- Generate a **positive real (after inflation) return**.
- Generate income for current spending.
- Provide a prudent degree of **growth** in assets to support future spending.
- Provide for **prudent diversification** of investments to minimise correlation among investment strategies.
- Maintain liquidity to meet unanticipated operating requirements.
- Maintain overall portfolio volatility within acceptable risk levels.
Gavi Portfolio Allocation (US$ 1.8 Billion)\(^1\)

**Short-term portfolio**
- Donor contributions $628 M (34%)
- Cash pending investment $155 M (8%)
- Currency hedge collateral $152 M (8%)

**Long-term portfolio**
- Fixed Income $431 M (24%)
- Equity $236 M (13%)
- Multi-Exposure $181 M (10%)
- Tactical $45 M (2%)

**Data as of 30 September 2018**
1. Excludes UNICEF Procurement account of $717M, IFFIm assets, and $133 M in operating cash.
2. Includes $20 M in Advanced Contributions, not reflected in pie chart.

Board meeting 28-29 November 2018
Long-Term Portfolio Liquidity

Data as of 30 September 2018

- Liquid (daily & monthly): 79%
- Semi-liquid (quarterly): 17%
- Illiquid (1 year or more): 3%

Board meeting
28-29 November 2018
Portfolio Net Returns

The total portfolio generated estimated year-to-date net investment income of US$ 13.7 million, and since inception, US$ 564.7 million.

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<tbody>
<tr>
<td>Long-term portfolio</td>
<td>6.6%</td>
<td>2.9%</td>
<td>4.2%</td>
<td>-1.5%</td>
<td>6.4%</td>
<td>11.7%</td>
<td>-0.4%</td>
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<tr>
<td>Short-term portfolio</td>
<td>0.9%</td>
<td>0.4%</td>
<td>0.2%</td>
<td>0.4%</td>
<td>0.9%</td>
<td>1.0%</td>
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Data as of 30 September 2018
Source: internal estimates, short-term portfolio figures based on strategies managed by the Investments team
Comparison of Indices Returns

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<tbody>
<tr>
<td>Global Fixed Income</td>
<td>20.9%</td>
<td>16.2%</td>
<td>3.8%</td>
<td>36.4%</td>
<td>16.8%</td>
<td>11.1%</td>
<td>16.4%</td>
<td>23.6%</td>
<td>9.0%</td>
<td>0.1%</td>
<td>11.8%</td>
<td>23.9%</td>
<td>3.7%</td>
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<tr>
<td>World IL Bonds</td>
<td>7.2%</td>
<td>11.2%</td>
<td>2.1%</td>
<td>18.9%</td>
<td>14.3%</td>
<td>5.5%</td>
<td>6.6%</td>
<td>2.9%</td>
<td>4.2%</td>
<td>-1.1%</td>
<td>10.2%</td>
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<tr>
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<td>9.3%</td>
<td>6.7%</td>
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<td>0.1%</td>
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<td>Commodities</td>
<td>4.9%</td>
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<td>-6.3%</td>
<td>8.8%</td>
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<td>Cash</td>
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<td>-35.6%</td>
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<td>1.4%</td>
<td>2.7%</td>
<td>-42.3%</td>
<td>0.2%</td>
<td>0.1%</td>
<td>-13.3%</td>
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<td>-9.5%</td>
<td>-17.0%</td>
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<td>0.3%</td>
<td>0.9%</td>
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Data as of 31 October 2018
Source: Bloomberg, internal estimates
*Preliminary

Global Fixed Income
World IL Bonds
Cash
Global Equities
Commodities
Gavi LTP

Board meeting
28-29 November 2018
Comparison of Indices Returns

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<td>-2.2%</td>
<td>0.5%</td>
<td>-2.2%</td>
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<td>-5.5%</td>
<td>0.0%</td>
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<td>-17.0%</td>
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<td>0.3%</td>
<td>0.9%</td>
<td>-2.4%</td>
<td>-1.1%</td>
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Data as of 31 October 2018
Source: Bloomberg, internal estimates
*Preliminary

Board meeting
28-29 November 2018
Long-term Portfolio Performance

Data as of 30 September 2018
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
28-29 November 2018
## Key Highlights 2018

### Manager Rotation
- The Committee oversaw heightened activity in the portfolios in preparation for more volatile financial markets and a late cycle investment landscape. It continues to add less-directional and lowly correlated strategies that should help dampen volatility.

### Inv Policy/Asset Allocation
- The Committee modestly extended the liquidity profile of the long-term portfolio to include private debt (up to 10%). At year-end the Committee also approved new targets for each major exposure and modestly raised the ceiling for the equity allocation.

### ESG & SRI Screening
- The Committee terminated a manager for persistent violations, and approved the exchange of a passive US equity strategy into a SRI equivalent. It approved a relationship with Ceres, a sustainability non-profit as a means to collectively advocate for actions to mitigate climate change risks.

### Risk Management
- The Committee concluded their annual exercise of asset allocation using three risk–based measurements and finalised targets for 2019. The Committee also reviewed the outcomes of regular manager monitoring efforts, culminating in an annual risk review that systematically describes how and where the Investments team will focus its efforts in 2019.
Long-Term Portfolio: Asset Allocation Ranges

Current Targets
Former Targets

Multi-Exposure
Tactical
Equity
Fixed Income

Higher maximum (30%) for flexibility

Board meeting
28-29 November 2018
# 2018 Manager Rotation

The Investment Committee authorised:

<table>
<thead>
<tr>
<th>Redemptions</th>
<th>New Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>• US$ 218 Million</td>
<td>• US$ 240 Million</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SRI Enhancements</th>
<th>SRI Terminations</th>
</tr>
</thead>
<tbody>
<tr>
<td>• US$ 63 Million</td>
<td>• US$ 38 Million</td>
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</table>
Long-Term Portfolio’s Value at Risk (VaR)

Expected Downside Risk (%)

<table>
<thead>
<tr>
<th>1 Standard Deviation</th>
<th>2 Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Former Target</td>
<td>Current Target</td>
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</table>

Board meeting
28-29 November 2018
## Long-Term Portfolio Monthly Returns

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</thead>
<tbody>
<tr>
<td>January</td>
<td>0.62%</td>
<td>2.31%</td>
<td>-0.69%</td>
<td>0.77%</td>
<td>0.17%</td>
<td>1.51%</td>
<td>0.56%</td>
<td>-0.14%</td>
<td>0.64%</td>
<td>-2.01%</td>
<td>1.47%</td>
<td>1.33%</td>
</tr>
<tr>
<td>February</td>
<td>0.99%</td>
<td>-0.24%</td>
<td>-1.62%</td>
<td>0.46%</td>
<td>0.53%</td>
<td>0.44%</td>
<td>0.05%</td>
<td>2.10%</td>
<td>1.71%</td>
<td>-0.43%</td>
<td>1.41%</td>
<td>-1.84%</td>
</tr>
<tr>
<td>March</td>
<td>0.05%</td>
<td>-0.84%</td>
<td>1.86%</td>
<td>0.21%</td>
<td>0.39%</td>
<td>-0.39%</td>
<td>0.68%</td>
<td>0.13%</td>
<td>-0.08%</td>
<td>3.33%</td>
<td>0.60%</td>
<td>0.07%</td>
</tr>
<tr>
<td>April</td>
<td>0.32%</td>
<td>0.23%</td>
<td>1.69%</td>
<td>0.98%</td>
<td>1.39%</td>
<td>0.69%</td>
<td>1.10%</td>
<td>0.60%</td>
<td>1.02%</td>
<td>1.24%</td>
<td>1.14%</td>
<td>-0.01%</td>
</tr>
<tr>
<td>May</td>
<td>-0.47%</td>
<td>-0.14%</td>
<td>2.26%</td>
<td>-0.01%</td>
<td>0.39%</td>
<td>-0.40%</td>
<td>-1.29%</td>
<td>1.43%</td>
<td>0.03%</td>
<td>0.42%</td>
<td>1.04%</td>
<td>-0.60%</td>
</tr>
<tr>
<td>June</td>
<td>-1.15%</td>
<td>-0.59%</td>
<td>0.46%</td>
<td>0.94%</td>
<td>-0.35%</td>
<td>0.64%</td>
<td>-2.46%</td>
<td>1.01%</td>
<td>-1.36%</td>
<td>0.17%</td>
<td>0.58%</td>
<td>-0.52%</td>
</tr>
<tr>
<td>July</td>
<td>-0.33%</td>
<td>-1.01%</td>
<td>1.36%</td>
<td>1.23%</td>
<td>1.53%</td>
<td>1.74%</td>
<td>1.40%</td>
<td>-0.54%</td>
<td>-0.07%</td>
<td>1.81%</td>
<td>1.26%</td>
<td>0.76%</td>
</tr>
<tr>
<td>August</td>
<td>1.08%</td>
<td>0.42%</td>
<td>0.95%</td>
<td>1.07%</td>
<td>0.21%</td>
<td>0.48%</td>
<td>-0.81%</td>
<td>1.29%</td>
<td>-2.79%</td>
<td>0.65%</td>
<td>1.00%</td>
<td>0.06%</td>
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<tr>
<td>September</td>
<td>1.56%</td>
<td>-3.30%</td>
<td>1.20%</td>
<td>0.70%</td>
<td>-1.42%</td>
<td>0.69%</td>
<td>1.83%</td>
<td>-1.76%</td>
<td>-1.76%</td>
<td>0.60%</td>
<td>0.43%</td>
<td>0.31%</td>
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<tr>
<td>October</td>
<td>0.62%</td>
<td>-5.46%</td>
<td>0.81%</td>
<td>0.92%</td>
<td>0.94%</td>
<td>0.03%</td>
<td>1.54%</td>
<td>0.78%</td>
<td>2.80%</td>
<td>-0.21%</td>
<td>0.65%</td>
<td>[-2.08%]*</td>
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<tr>
<td>November</td>
<td>-0.24%</td>
<td>-0.77%</td>
<td>1.41%</td>
<td>-0.84%</td>
<td>-0.53%</td>
<td>0.55%</td>
<td>0.14%</td>
<td>0.51%</td>
<td>-0.28%</td>
<td>-0.52%</td>
<td>0.58%</td>
<td>0.58%</td>
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<tr>
<td>December</td>
<td>-0.35%</td>
<td>3.14%</td>
<td>-0.70%</td>
<td>0.11%</td>
<td>0.72%</td>
<td>0.42%</td>
<td>0.20%</td>
<td>-1.20%</td>
<td>-1.25%</td>
<td>1.30%</td>
<td>0.96%</td>
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**Data as of 31 October 2018**  
* Preliminary

Board meeting  
28-29 November 2018
Key priorities first half of 2019

| Maintain focus on capital preservation | With risks mounting and heightened potential for increased volatility, the Committee elected to keep the portfolio at the conservative end of asset allocation scenarios. Gavi has sufficient cash to re-deploy when the time is right. |
| Engage with new auditors | The change in auditor will likely lead to a deeper and more comprehensive review, requiring more staff time. |
| Foster ESG and sustainable investment practices | The Committee supports further fostering an ESG-focused investment approach and selected sustainability engagements in partnership with like-minded investors. |
Thank you