Section A: Introduction

- This report provides the Board with an overview of an extraordinary and unprecedented period in financial markets, reviews investment performance during this period and updates on the activities of the Investment Committee. The Committee met twice in the first half of 2020.

- At the start of 2020, the economic backdrop was benign. Market consensus was that the emerging coronavirus threat from Wuhan could be contained within China. Effectively the virus was viewed as a human tragedy but not a market moving event.

- Market panic then ensued in February and March as investors realised that the COVID-19 pandemic could not be contained without putting much of the global economy into an induced coma. The intensity and volatility of the sell-off left an indelible mark. The US S&P 500 equity index went from peak to trough (-34%) in 24 trading days. By comparison, during the 2008 Global Financial Crisis, the S&P 500 took 356 trading days from peak to trough (-57%). While much of the media focus was on equity markets, extreme market volatility spread into other asset classes, including commodities and investment grade and high yield fixed income credit markets. Developed market sovereign bonds benefitted from a flight to quality, but all risk assets fell in unison and the benefits of asset class diversification temporarily disappeared.

- Having reported a positive return of 12.4% in 2019, the long-term portfolio suffered a drawdown of -10.6% in Q1 2020 at the height of the COVID-19 panic. Since March month-end, the portfolio has meaningfully recovered such that the year-to-date loss at May month-end is a manageable -3.4%.

- The drawdown in Q1 2020 was in line with the risk measures and scenarios (Value at Risk) previously presented to the Board, but performance through month-end March was nevertheless underwhelming. The Investment Committee believed heading into the pandemic that markets were fully valued and had added strategies to the portfolio that were only modestly or in some cases negatively correlated with overall market volatility. These included Long/Short equity allocations in the Equity sector and a Dispersion
strategy in the Tactical sector. These strategies performed in line with expectations during the market upheaval.

- The Fixed Income sector, the largest in the long-term portfolio, proved the most disappointing. This happened for two principal reasons. Firstly, Gavi was consciously overweight credit and underweight duration compared to its Fixed Income Benchmark. As a result, the portfolio did not receive significant “flight to quality” benefit from its Fixed Income allocation. For example, the US high-yield market lost a record breaking 10.2% in March. Secondly, Gavi has a modest portion of its Fixed Income allocation invested in historically low volatility specialised credit strategies managed by experienced managers. These strategies typically remain relatively stable in periods of “normal” market volatility but in the eye of this storm, valuations of these holdings were punished by mark-to-market losses amid forced selling by leveraged market participants. Conference calls were held with each of these managers in April and we are satisfied that material defaults have been avoided and that these exposures have meaningful recovery value, some of which has started to be realised in April and May.

- Actions by the US Federal Reserve and European Central Bank (ECB) have stabilised the fixed income markets in the US and Europe. The liquidity needs of creditworthy larger corporations have substantially been addressed either by issuing debt or by governments under a myriad of lending/support programmes. This is not to say that defaults will not accelerate later this year and next. They will. However, defaults are largely priced in and are likely to be concentrated in avoidable sectors including energy, travel, hospitality and leisure and commercial real estate. Given the negligible and negative yields prevailing in developed markets, we do not expect at this stage to alter our overweight credit and underweight duration posture in fixed income.

- The extent of the economic carnage caused by the pandemic can be difficult to fathom. A recent report from the OECD predicted a 6% hit to global GDP in 2020, potentially rising to 7.6% if there is a meaningful second wave of the virus. The US economy is predicted to shrink more than 7% and Italy, the UK, and France more than 11%. Economic shocks of this magnitude have never been experienced in peacetime. Furthermore, this is after fiscal support greater than 20% of GDP in each of the Eurozone, the UK, and the US. The hangover, second order effects and long-term consequences of this sovereign debt accumulation remain to be seen.

Much has been written about the disconnect between what is happening in the real economy compared to the magnitude of the equity market rally since the March lows, Main Street vs. Wall Street effectively. We remain skeptical of the extent of the rally in the face of this economic backdrop. It is surprisingly true that historically there is no correlation between annual changes in real GDP and real returns of the S&P. The stock market’s job is to impart the consensus around listed companies’ earnings. The market can
be right or wrong, but in our view, the market consensus around a robust earnings’ recovery seems at odds with the realities of this pandemic.

- A multitude of known unknowns are on the horizon for the balance of this year. Unprecedentedly partisan US elections, possible material changes to corporate tax policies, second wave virus risks, uncertainties surrounding corporate earnings in the absence of normal guidance, Sino/US trade tensions and rising social and public unrest top our list. However, there are also a range of possible pathways for global economic stabilisation and recovery, which would be led by the success and rollout of approved COVID-19 vaccines and the introduction of additional effective therapeutics. The long-term portfolio needs to be prepared for both these risks and for an ultimately positive outcome to the pandemic.

- The COVID-19 pandemic has reminded corporate CEOs and Boards that they must not only address the broad set of stakeholders in their businesses but also, where possible, play a meaningful role in tackling wider inequities and sustainability factors. Using Gavi’s Sustainable Investment Policy, the Investments team has engaged existing investment managers on deepening sustainability factors in their investment processes.

- The total portfolio value was US$ 1.7 billion of which US$ 1,003 million was invested in the long-term portfolio, and the remaining US$ 719 million in the short-term portfolio. In June and July, it is expected that US$ 50 million will be deployed into existing strategies, mostly fixed income. Over the balance of the year some of our directional passive Environmental, Social, and Governance (ESG) equity exposure will be switched to well-known and respected ESG-focused active investment managers who are closed to new investors but nevertheless would welcome Gavi as a client.

- Ongoing manager due diligence efforts have focused on the following sectors: ESG focused US and Global equity, liquid credit opportunities and public/private credit instruments backed by local infrastructure projects.

- The Investment Committee Chair report is attached in the form of a presentation as Annex A.

Annexes

Annex A: Investment Committee Chair report
INVESTMENT COMMITTEE
CHAIR REPORT

BOARD MEETING
Stephen Zinser
24-25 June 2020, Virtual Meeting
Overview

- What happened?
- Where are we now?
- What happens next?
## Velocity Of Drawdown

<table>
<thead>
<tr>
<th>Event</th>
<th>Peak to Trough</th>
<th>Return</th>
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<tbody>
<tr>
<td>Covid-19</td>
<td>24 Days</td>
<td>-33.9%</td>
</tr>
<tr>
<td>Dotcom Bubble</td>
<td>638 Days</td>
<td>-49.2%</td>
</tr>
<tr>
<td>Global Financial Crisis</td>
<td>356 Days</td>
<td>-56.8%</td>
</tr>
<tr>
<td>Market Crash 1987</td>
<td>72 Days</td>
<td>-33.1%</td>
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Data as of 1 January 2020 to 23 March 2020

Board meeting
24-25 June 2020
Realised Volatility by Fixed Income Sectors

Data as of 31 March 2020
Source: Capstone
Complexity and Lower Credit Ratings Punished

Data as of 26 May 2020
Source: Napier Park

Annex A
Fixed Income Sectors Under Repair

Data as of 29 May 2020
Source: Capstone

Annex A
Equity Rebound - Sustainability Questionable

Data as of 1 January 2020 to 11 June 2020

Board meeting 24-25 June 2020
2020 Fiscal Measures (% GDP)

Preliminary data as of June 2020 Source: PIMCO, governments and central banks
Note: Forecasts for 2020 include both announced and expected policies. Includes (1) discretionary measures such as direct payments to individuals and businesses, loan forgiveness, increased healthcare spending, and tax cuts; and (2) liquidity provisions such as loan guarantees, forbearance, tax delays, and new loans.
Pandemic Fallout: Projected Change in 2020 GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>Single-hit scenario</th>
<th>Additional impact from double-hit scenario</th>
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<tbody>
<tr>
<td>World</td>
<td>-2%</td>
<td>-6%</td>
</tr>
<tr>
<td>China</td>
<td>-1%</td>
<td>-3%</td>
</tr>
<tr>
<td>Japan</td>
<td>-1%</td>
<td>-6%</td>
</tr>
<tr>
<td>U.S.</td>
<td>-1%</td>
<td>-7%</td>
</tr>
<tr>
<td>Germany</td>
<td>-2%</td>
<td>-7%</td>
</tr>
<tr>
<td>Canada</td>
<td>-1%</td>
<td>-8%</td>
</tr>
<tr>
<td>Italy</td>
<td>-3%</td>
<td>-11%</td>
</tr>
<tr>
<td>U.K.</td>
<td>-3%</td>
<td>-12%</td>
</tr>
<tr>
<td>France</td>
<td>-3%</td>
<td>-11%</td>
</tr>
</tbody>
</table>

Source: OECD, June 2020
Gavi Portfolio Allocation (US$ 1.7 B)\(^1\)

**Short-term portfolio**
- **Cash pending investment**: $115 M
- **Currency hedge collateral**: $17 M
- **Donor contributions**: $587 M
- **Multi-Exposure**: $208 M

**Long-term portfolio**
- **Fixed Income**: $468 M
- **Equity**: $251 M
- **Tactical**: $76 M

Preliminary Data as of 31 May 2020

\(^1\) Excludes UNICEF Procurement account of $598 M, IFFIm assets, and $88 M in operating cash

Board meeting
24-25 June 2020
## Year-End Objective: Positive Territory

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<thead>
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</tr>
</thead>
<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>1.9%</td>
<td>26.4%</td>
<td>5.3%</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>
<td>11.7%</td>
<td>(0.1%)</td>
<td>12.4%</td>
<td>1.6%</td>
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<tr>
<td>Global Equities</td>
<td>6.9%</td>
<td>9.2%</td>
<td>0.5%</td>
<td>9.3%</td>
<td>6.7%</td>
<td>4.0%</td>
<td>5.6%</td>
<td>0.1%</td>
<td>3.8%</td>
<td>(1.5%)</td>
<td>8.4%</td>
<td>7.7%</td>
<td>(1.4%)</td>
<td>8.4%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Commodities</td>
<td>4.9%</td>
<td>7.9%</td>
<td>(6.3%)</td>
<td>8.8%</td>
<td>5.8%</td>
<td>0.1%</td>
<td>4.8%</td>
<td>(2.2%)</td>
<td>0.5%</td>
<td>(2.2%)</td>
<td>6.4%</td>
<td>3.3%</td>
<td>(3.2%)</td>
<td>7.7%</td>
<td>(3.4%)</td>
</tr>
<tr>
<td>Cash</td>
<td>2.1%</td>
<td>5.0%</td>
<td>(35.6%)</td>
<td>8.0%</td>
<td>5.4%</td>
<td>(7.9%)</td>
<td>0.1%</td>
<td>(5.5%)</td>
<td>0.0%</td>
<td>(3.3%)</td>
<td>2.8%</td>
<td>1.7%</td>
<td>(10.1%)</td>
<td>7.1%</td>
<td>(9.9%)</td>
</tr>
<tr>
<td>Gavi LTP</td>
<td>1.4%</td>
<td>2.7%</td>
<td>(42.3%)</td>
<td>0.2%</td>
<td>0.1%</td>
<td>(13.3%)</td>
<td>(1.1%)</td>
<td>(9.5%)</td>
<td>(17.0%)</td>
<td>(24.7%)</td>
<td>0.3%</td>
<td>0.9%</td>
<td>(11.2%)</td>
<td>2.3%</td>
<td>(21.2%)</td>
</tr>
</tbody>
</table>

Preliminary Data as of 31 May 2020
Source: Bloomberg, internal estimates

Board meeting
24-25 June 2020
Reach every child