

Gavi Alliance Investment Committee Meeting

10 November 2022

Teleconference

1. Chair's report

- 1.1 Noting that the meeting had been duly convened and finding a quorum of members present, the meeting commenced at 14.00 Geneva time on 10 November 2022. Afsaneh Beschloss, Investment Committee Chair, chaired the meeting.
- 1.2 Standing declarations of interest were tabled to the Committee (Doc 01a).
- 1.3 The minutes of the 12 May 2022 and 9 September 2022 meetings were tabled to the Committee for information (Docs 01b and 01c, respectively). The minutes had been circulated and approved by no-objection on 9 November 2022.
- 1.4 The Committee noted its action sheet (Doc 01b) and forward work plan (Doc 01c). The Secretariat asked for the Committee's guidance on an asset allocation exercise in Q1 2023. The Committee agreed to discuss the position of the long-term portfolio in February 2023 relative to the current asset allocation and decide then if adjustments should be made to the ranges based on the position of the portfolio and market dynamics. It was noted that the asset allocation should remain fairly stable over the long-term and adjustments made primarily in pace of execution.
- 1.5 The Chair noted that the Committee's action sheet item to update the Board on the private asset allocation strategy will happen as part of the Investment Committee Chair report in the 7-8 December 2022 Gavi Board meeting.

Discussion

- Seth Berkley, CEO, highlighted a 6 December 2022 panel discussion organised for Board members on the global Macro Economic Outlook. He noted the purpose of the session is to help Board members understand the current macroeconomic environment and its potential impact on Gavi in the coming strategic period. He referred to the Committee as a "brain trust" in this area and encouraged Committee members to attend the session and promote dialogue on this topic to increase Board understanding.
- Dr Berkley recognised Peggy Hamburg's service on the Committee noting this was her last scheduled meeting before retiring from the Gavi Board in December. He also expressed appreciation to the Chair for her leadership and thanked Yibing Wu for agreeing to serve as Investment Committee Chair starting in 2023.

- Naguib Kheraj, Audit and Finance Committee (AFC) Chair, highlighted that the addition of private assets to Gavi's asset allocation impacts how the Secretariat considers investment income in the financial forecast. He explained that the Secretariat's forecasting exercise presumes a set amount of investment income from the short-term and long-term portfolios, and that this investment income is available to spend. He noted the financial forecast should not be based on the underlying assumption of presumed investment income being available to spend and therefore the AFC is working with the Secretariat on developing an approach for planning investment returns and potentially changing the definition of qualifying financial resources for the Gavi Board to consider. Mr Kheraj underlined the need for the AFC and IC to be comfortable with the proposed approach.
- Mr Kheraj noted he is also working with the Secretariat on how the short-term portfolio is managed from a risk return point of view. He explained the short-term portfolio is managed by the Secretariat's treasury team and it has grown in size to nearly US\$ 7 billion primarily due to COVAX. The Secretariat responded that efforts are underway to strengthen governance, oversight and reporting to the Committee of Gavi's full investment portfolio. The Committee agreed to work with the AFC and Secretariat on ensuring liquid assets in the portfolio are closely and strategically managed.

2. Investment portfolio review

- 2.1 Ms Jeanne Shen, Chief Investment Officer, updated the Committee on the performance of the investment portfolio, manager activities, and related transactions (Doc 02).
- 2.2 Ms Shen highlighted inflation as a disrupter in financial markets noting declines in the equity and bond markets. She suggested the Committee discuss implications of bond market volatility in relation to the long-term portfolio and noted this will be an area of focus in the 15 February 2023 market outlook discussion with the Committee.
- 2.3 She noted the importance of regularly monitoring long-term portfolio liquidity to ensure there is capacity to support Gavi's mission given elevated market volatility is expected in the foreseeable future.
- 2.4 She reported the long-term portfolio year-to-date return is -11.6% noting on a relative basis performance has been better than the benchmark.
- 2.5 She updated the Committee on several new equity strategies, noting reference checks are underway and active strategy investing is scheduled to begin in November 2022 at a measured pace as per Committee guidance.
- 2.6 Ms Shen requested guidance on merging a low duration fund into a high-quality fixed income allocation in the long-term portfolio. The Committee supported merging the fund into the long-term portfolio in January 2023.

- 2.7 Finally, Ms Shen highlighted proposed changes to the Secretariat's annual risk rating primarily to simplify the ratings process. She noted the annual risk rating will be discussed with the Committee in Q1 2023 based on the updated criteria.

Discussion

- A Committee member requested the fact sheet of a low duration fund be shared with the Committee.
- The Committee encouraged the Investments team look at ultra-short duration funds and discuss money market accounts and investment strategies with the Secretariat treasury team.
- In response to an enquiry about manager updates, the Secretariat highlighted an emerging trend of investment managers incorporating a systematic process. Ms Shen explained this offers an alternative to traditional strategies, which the Secretariat continues to explore.
- In relation to the risk rating, a Committee member encouraged including Assets Under Management and new lines of business in the risk rating criteria. The Secretariat agreed to take on these suggestions and revert by email on the final risk rating criteria.
- A Committee member enquired about 2022 transactions and requested clarity in future meeting material to better understand the alignment of new investments and transactions in relation to cash flows from the last quarter and for the forward quarter. The Secretariat agreed to provide this clarity moving forward.

3. Private Asset Implementation Next Steps – Secondaries and Real Estate

- 3.1 Sebastian Grzejka, Partner, NEPC, presented this item (Doc 03, Annex A). He noted Committee guidance is sought on recommended implementation models for private equity using Secondaries and fund of funds.
- 3.2 Mr Grzejka outlined a proposed implementation model with Secondaries as the preferred implementation tool given the diversification of strategies. He noted a moderate investment approach is recommended which is appropriate for investors looking to implement broad exposure over time. He requested the Committee opine on aspects of diversification, exposure and implementation phasing.

Discussion

- The Committee supported prioritising Secondaries given the benefits of diversified exposure. The Chair noted the Committee's comfort with Fund of Funds to enable access to quality managers.

- The Committee agreed with NEPC's recommended implementation approach, underlining a preference for an endowment approach to asset class composition with increased allocation in venture capital.
- In relation to real estate, the Committee agreed not to execute on the 4% real estate allocation at this time, sharing concerns about inflation-related risk and expressing a desire to discuss the implementation plan in more detail at a later date. A Committee member suggested looking at potential opportunistic real estate investing, taking advantage of the dislocations that might emerge in the next few years. The investment consultant agreed not to invest in the real estate allocation at this time and to revert to the Committee later in 2023 to discuss an implementation plan.
- In response to an enquiry about buy-out opportunities in early 2023 due to markdowns by auditors and regulators and capital calls from overallocations, NEPC responded that transaction volume is down and managers are challenged with creatively managing transaction value markdowns which could present new opportunities in 2023.
- The Committee noted the importance of being nimble and achieving diversification. The Committee advised committing into one or two Secondaries today so Gavi does not miss a valuable investment opportunity. A specific secondary fund was suggested and the Secretariat agreed to follow up on the suggestion.
- The Committee discussed the pipeline noting NEPC plans to build out the diversification first and access specialised managers as opportunities arise. The Committee asked the Secretariat to work with NEPC and revert with a priority pipeline.
- It was further noted that the Secretariat will adjust the implementation framework to limit exposure to buyouts.

4. Any other business

- 4.1 After determining there was no further business, the meeting was brought to a close and it then convened in closed session.

5. Closed session for members only – Evaluation of Investments Team function

- 5.1 Members of the Secretariat left the room and the Committee proceeded with the closed session to evaluate the Investments Team function (see separate notes from the closed session).

Ms Melissa Wolfe
Secretary to the Meeting

Attachment A

Participants

Committee Members

- Afsaneh Beschloss, Chair
- Naguib Kheraj
- Yibing Wu

Regrets

- Peggy Hamburg
- Kwaku Agyeman Manu

Other Board Members

- Seth Berkley

Secretariat

- Assietou Diouf
- Brenda Killen
- Helen Liu
- David Marlow
- Jeanne Shen
- Sandra Gonzalez Nderstigt
- Kimberly Villa
- Melissa Wolfe

Guests

- Josh Beers, NEPC (items 2-3)
- Sebastian Grzejka, NEPC (items 2-3)
- Dulari Pancholi, NEPC (items 2-3)
- Marisol Reyes, NEPC (items 2-3)
- Kristin Reynolds, NEPC (items 2-3)
- Stephen Zinser