

FOR DECISION

GAVI's investment goal is to achieve a long-term rate of return that will assist the Alliance in meeting its present and future spending needs and in a manner consistent with the organisational mission. The strategy is conservative – providing liquidity and sufficient income is prioritised over seeking high but potentially volatile gains. The asset allocation is divided among fixed income, inflation-sensitive assets, and cash. In addition, the Secretariat investment team, under the oversight of the Investment Committee, regularly reports on its activities to demonstrate that it exercises prudent care of the investment portfolio.

The investment policy and cash investment policy together provide the framework on which the Investment Committee and Secretariat perform these functions. They describe roles and responsibilities, risk management priorities, the frequency for review of GAVI cash and investment allocations, and provide transparent criteria for key decisions. The Board has requested the Investment Committee to review periodically the policies in light of GAVI's evolving revenue and expenditure profile.

On 23 February, the Investment Committee recommended to the Board that it approve the following policies:

- Investment policy (pages 1-16)
- Cash investment policy (pages 17-19)

The Secretariat recommends the Board not widely disseminate the content of these policies as they contain sensitive information that is not generally expected to be in the public domain.

Investment Policies

GAVI Alliance Investment Policy

1. Introduction

This document provides a framework for the management of the financial assets of the GAVI Alliance. The purpose of the GAVI Alliance is to promote health by: (i) providing vaccines and the means to deliver such vaccines to people in the poorest countries; (ii) facilitating the research and development of vaccines of primary interest to the developing world; and (iii) to provide support in connection with achieving the foregoing purposes by helping to strengthen health care systems and civil societies supporting such purposes in the developing world.

The purpose of the Investment Policy is to assist the GAVI Alliance Board ("Board") and its Investment Committee ("Committee"), the Chief Financial Office (the "Staff") and Investment Managers (the "Managers") in effectively supervising, monitoring, and managing the investments of the Alliance. Specifically, it will address the following issues:

- The goals of the investment activity for the GAVI Alliance;
- Asset allocation and rebalancing procedures;
- The policies, procedures and guidelines for the management of the investments;

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- Investment management policy and responsible parties;
- Performance objectives.

This statement of Investment Policy, Objectives and Guidelines incorporates the Committee's policies, objectives, asset allocation plan, and implementation programme for fulfilling its fiduciary obligation to manage the Alliance's assets with the "care, skill, prudence, and diligence under the circumstances then prevailing of a prudent person acting in a like character and with like aims."

This policy statement is designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while setting forth reasonable parameters to ensure prudence and care in the execution of the investment programme.

The Committee establishes this Investment Policy consistent with the principles of the GAVI mission and in accordance with existing and future applicable state and federal regulations. Consistent with the mission of the GAVI Alliance, the Committee shall inform all managers of this policy in writing.

2. Investment Goal Statement

The GAVI Alliance's financial objectives are to achieve a long-term (e.g., 10-year) rate of return that will permit the Alliance to meet its present and future spending needs without subjecting the Alliance to investment losses that could erode the ability of the Alliance to meet its future financial commitments or the erosion of purchasing power. The following goals, consistent with the above-described purpose, are adopted:

The GAVI Alliance's investment programme is intended to:

- Maintain assets in a manner consistent with objectives of the GAVI Alliance mission;
- Maintain purchasing power of assets;
- Provide sufficient liquidity;
- Generate sufficient income to support ongoing projects and programme expenses;
- Provide a prudent degree of growth in assets to support future costs and spending needs;
- Maintain sufficient assets to ensure financial flexibility of the Alliance over the long term.

The total portfolio over the long term will be expected to:

- Exceed a weighted benchmark return based upon policy asset allocation targets and standard index returns over rolling five-year periods.
- Produce a total portfolio, long-term real (above inflation) return of 2.0% (annualised, net of fees, over a full market cycle); and
- Over shorter periods (less than 3 years), the portfolio's performance will be measured against the weighted benchmark return based upon policy asset allocation targets and standard index returns.

The Committee realises that market performance varies and that a 2.0% real rate of return, given the asset allocation and our broad investment objectives, may not be meaningful during shorter periods (less than three years).

- The Alliance's mission is to fund vaccines for children in the developing world, spending assets for these purposes on an annual basis in amounts agreed upon by the GAVI Alliance Board. As such, the Board has a long-term investment horizon, and utilises an asset allocation, which encompasses a strategic, long-run perspective of capital markets.

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It is recognised that a strategic long-run asset allocation plan implemented in a disciplined manner and implemented to be consistent with the GAVI Alliance's spending needs will be the major determinant of the Alliance's performance and financial success.

- The Alliance will administer the investment plan in a manner which is cost-effective with respect to internal staff, external manager fees, consulting costs and custody costs.

3. Asset Allocation and Rebalancing Procedures

The GAVI Alliance adopts and implements an asset allocation policy that is predicated on a number of factors, including:

- A cash flow analysis based on changes in spending amounts over time, rates of return to exceed inflation and the Alliance's access to capital via donors and the financial markets;
- Historical and expected long-term capital market risk and return behaviour;
- The perception of future economic conditions, including inflation and interest rate levels.

This policy is adopted to provide for diversification of assets in an effort to generate returns that will meet the financial obligations of the GAVI Alliance and protect the purchasing power of the Alliance. Asset allocation modelling identifies asset classes the Alliance will utilise and the percentage each class represents in the total fund. Due to the fluctuation of market values, positioning within a specified range is acceptable and constitutes compliance with the policy.

Staff will implement the asset allocation policy through the use of qualified specialty investment managers who have demonstrated skill in a particular asset class. These external managers will be given full discretion to invest the assets of their portfolios subject to each manager's prospectus, offering memorandum or the investment guidelines incorporated into the investment management agreement executed with the GAVI Alliance.

The target asset allocation and allowable ranges are depicted in Attachment One.

Staff shall review actual asset allocation quarterly to ascertain that the GAVI Alliance conforms to its asset allocation policy. Staff has discretion to rebalance asset allocation to policy percentages quarterly or when the allowable asset allocation ranges are violated.

The asset allocation targets should be reviewed annually to determine if any changes are required given changes in projected GAVI expenses, changes in capital market conditions and changes in donor funding levels and policies.

Portfolio Component Definitions

The GAVI Alliance will utilise the following portfolio components to fulfil the asset allocation targets and total Fund performance goals established in the previous section.

Fixed Income – The primary role of the fixed income portfolio is to provide a stable investment return and to generate income while diversifying the GAVI Alliance's investment assets. The fixed income holdings are comprised of two segments:

- ***Short Duration Fixed Income*** – This portfolio will provide exposure to the portion of the US fixed income market with maturities of less than 3 years across Treasury, government agency, corporate debt, mortgages and asset backed securities. Given the traditionally stable nominal value of short duration fixed income assets, this allocation is

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likely to be the primary source of liquidity for the GAVI Alliance's spending needs. The primary objectives of this portfolio, in order of priority, shall be to:

- Preserve the value and safety of the principal involved;
- Maintain liquidity coordinated with the anticipated cash requirements;
- Provide for prudent diversification of investments to minimise credit and market risk exposure.

- ***Intermediate Duration Fixed Income*** – This portfolio will provide exposure to the traditional US fixed income market including Treasury and government agency bonds, corporate debt, mortgages and asset-backed securities. The manager may also tactically invest a limited portion in below investment grade and non-dollar securities (see guidelines for specific limits). Below investment grade offers significant diversification benefits vis-à-vis the investment grade bond market. Non-US bonds provide inflation and interest rate cycle diversification across borders. The primary objectives of this portfolio, in order of priority, shall be to:

- Provide a current income to meet to cash flow obligations of the Alliance;
- Preserve the value and safety of the principal involved;
- Meet the Alliance's liquidity requirements.

Inflation-sensitive – Inflation-sensitive assets represents an opportunity to take advantage of an asset class that provides investors with a better hedge against loss of purchasing power than fixed income assets. Moreover, these strategies maintain low correlation to traditional asset classes, providing diversification benefits. For the purposes of the GAVI Alliance, Inflation-sensitive may be comprised of the following segments:

- **Real Estate Investment Trusts (REITs) and Real Estate Securities** – A REIT is a publicly traded company whose primary business is owning and managing commercial real estate properties such as office buildings, apartments, hotels, warehouses, health care facilities, shopping malls, or golf courses. The primary goal of a REIT is to generate income from the rent paid by tenants in the buildings or leases on the properties a REIT company owns. A REIT can also generate gains when a property it owns is sold at a profit. REIT's provide generous income returns in addition to capital appreciation in-line with the rate of inflation. Low correlation with and less volatility than other asset classes provide overall portfolio diversification benefits. Non-US real estate securities may also be included in the Alliance's investment portfolio.
- **Hybrid Real Asset Products** – This part of the portfolio also provides inflation protection and diversification benefits. The portfolio invests in liquid asset categories that offer strong relative performance in rising inflation environments and will generally include exposure to publicly traded securities, including but not limited to inflation-linked bonds (US and global), commodities, REITs, and currencies. The manager has discretion to tactically allocate to different inflation related sectors based on its view of current opportunities.

The primary objectives of the Real Asset portfolio, in order of priority, shall be to:

- Preserve the real (after inflation) value of the GAVI Alliance over the long term;
- Provide for prudent diversification of investments;
- Maintain liquidity coordinated with the anticipated cash requirements.

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The policies and procedures of the GAVI Alliance's investment programme are designed to maximise the probability that the investment goals will be fulfilled. Investment policies will evolve as fund conditions change and as investment conditions warrant.

Custody of Assets

With the exception of assets invested in commingled funds, the assets of the GAVI Alliance will be held in a custody account in a master custody bank. Assets invested in commingled funds or mutual funds will be held in custody accounts designated in the offering memorandum/prospectus of the Alliance.

The Use of Derivatives

Certain of the Managers, fund investments or partnership investments may be permitted under the terms of individual investment guidelines, fund prospectus or offering memorandum to use derivative instruments to control portfolio risk, or when they are a more efficient and/or less costly alternative to investment in the underlying physical securities that are permitted within the specific asset class guidelines, as cash security substitutes or to hedge established portfolio positions. Derivatives are contracts or securities whose returns are derived from the returns of other securities, indices or derivatives. While this definition includes collateralised mortgage obligations, the most common type of derivatives, it is also intended to include (but not be limited to) futures, forwards, options, options on futures, or non-exchange, OTC derivatives such as swaps.

No derivative positions can be established that create portfolio characteristics outside of portfolio guidelines. Examples of appropriate applications of derivative strategies include hedging interest rate and currency risk, maintaining exposure to a desired asset class while effecting asset allocation changes and adjusting portfolio duration for fixed income. Derivatives shall not be used to leverage portfolio returns.

It is expected that managers will utilise counterparties to implement the derivative strategies allowed according to the terms of the individual investment guidelines. In the case of such non-exchange derivatives, counterparty credit status shall be of the highest calibre with care taken to avoid "name washing" or credit guarantees extended through to parties less credit worthy than the primary counterparty to the transaction. The investment manager shall exercise prudence at all times in the selection, use and monitoring of said counterparties. The investment manager shall develop and have available for review credit guidelines for evaluation of prospective counterparties and a list of approved counterparties for use in swap transactions. Counterparties will be rated AA- or higher.

Securities Lending

Securities lending will be permitted in the portfolio. The GAVI Alliance may participate in a securities lending programme administered by a lending agent for the purpose of producing incremental income in accordance with the terms and conditions set forth in a mutually acceptable securities lending agreement with indemnification against all borrower defaults.

The Staff shall be responsible for overseeing the securities lending programme. The securities lending programme shall be established pursuant to a written agreement established between the

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GAVI Alliance and the Master Custodian that stipulates the workings of the programme and provisions for collateralisation levels, counterparty limits for the borrowers, permissible securities that can be purchased as cash investments, maturity, duration, and credit quality of such permissible securities, diversification for individual issuers and sectors, and internal cash collateral allocation limits.

The underlying investment collateral shall be invested in a manner similar to a short-term investment fund regarding the duration, maturity and preservation of capital. Loans will be collateralised with 102% cash or securities at the time of purchase. Invested collateral must meet the other guidelines of the Investment Policy and must be maintained with a market value of not less than 100% of the loan amount during lending period. Otherwise, additional collateral will be collected to meet the 100% market value requirement. There shall be no collateral holdings rated below investment grade or in emerging market bonds.

Credit Ratings

Credit ratings (as mentioned in the manager guidelines) will be measured by Standard & Poor's, Moody's Investors Service or Fitch.

In the case of split rated securities, rated by only two agencies, then the lower of the two ratings will apply. In the case of split rated securities, rated by Standard & Poor's, Moody's Investors Service, and Fitch, then the middle rating will apply.

In the case of securities not rated by two agencies, a third rating source will be considered on a case by case basis.

In the consideration of unrated Supranational and US Government guaranteed issues, the manager's internal rating would be the point in determining eligibility under these guidelines.

If a security is downgraded below criteria specified in the appropriate manager guidelines subsequent to purchase, the investment manager shall take the following steps upon becoming aware of the downgrade:

- Notify GAVI Alliance Staff as soon as the manager becomes aware of the downgrade; and
- Notify the GAVI Alliance's investment consultant; and
- Prepare a rationale and recommendation as to the subsequent disposition/retention of the security and submit it to the GAVI Alliance Staff and consultant; and
- Follow the GAVI Alliance decision regarding the disposition of said security.

5. Short Duration Fixed Income Objectives & Guidelines

Short Duration Target Allocation of the Total Fund: 40%

Short Duration Permitted Range within the Total Fund: 30-50%

Short duration fixed income investment managers retained by the GAVI Alliance will invest with a total return objective, will follow specific investment styles and will be evaluated against specific market indices which represent their investment style. In addition, investment results may also be compared to a peer group of returns from other managers investing with a similar

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style. The benchmarks for the short duration fixed income portfolios will be the following index:

- Short Duration Fixed Income – Barclays 1-3 Year Government Credit Index

All percentages expressed herein shall be applied as of the time of purchase. The limits shall apply to individual securities and the weighted average characteristics of any mutual fund or other commingled vehicle in which the GAVI Alliance may hold a share of beneficial interest.

General short duration fixed income guidelines for active managers include the following:

- Managers may invest in fixed income obligations issued by or guaranteed by national and local governments, government agencies, supranational organisations, banks and corporations, including mortgage and asset-backed securities, structured credit fund issues, and money market instruments.
- The minimum credit rating of any issue shall be BBB- or Baa3.
- The weighted average duration of any short duration portfolio shall not exceed the benchmark duration by more than 20%.
- The minimum average quality rating of any short duration portfolio will be AA(-/3) as measured by a major credit rating agency.
- All securities shall be issued by entities domiciled in OECD member countries, and shall be denominated in the currencies of those countries.
- Managers may use spot and forward currency contracts and currency futures.
- No more than 10% of the short duration portfolio can be invested in non-dollar securities or non-dollar currency-related instruments.
- Derivative strategies and over the counter futures, options and swaps may be utilised if positions are consistent with the manager's overall investment strategy. Exchange traded futures may be utilised without approval prior to implementation. Specifically, derivatives may be used to a) provide a duration exposure at a lower cost than is possible in the cash market, b) manage the overall duration of the short duration portfolio, and c) hedge. No derivative positions can be established to create positions or exposures that are otherwise prohibited by the policy guidelines.
- The manager may not create leverage within the short duration portfolio through actively borrowing funds via reverse repo, a credit facility, or any similar mechanism in order to purchase securities in addition to equity capital.
- Managers may not invest in non-publicly offered securities with the exception of securities issued pursuant to SEC Rule 144-A or Regulation S.

Any exemption from the general short duration fixed income guidelines or the manager's separate account guidelines requires prior approval.

6. Intermediate Duration Fixed Income Objectives & Guidelines

Intermediate Duration Target Allocation of the Total Fund: 35%

Intermediate Duration Permitted Range within the Total Fund: 25-45%

Fixed income investment managers retained by the GAVI Alliance will invest with a total return objective, will follow specific investment styles and will be evaluated against specific market indices which represent their investment style. In addition, investment results may also be

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compared to a peer group of returns from other managers investing with a similar style. The benchmarks for the various fixed income portfolios will include the following indices:

- Intermediate Duration Fixed Income -
 - Barclays U.S. Intermediate Aggregate Bond Index
 - Barclays U.S. Aggregate Bond Index

All percentages expressed herein shall be applied as of the time of purchase. The limits shall apply to individual securities and the weighted average characteristics of any mutual fund or other commingled vehicle in which the GAVI Alliance may hold a share of beneficial interest.

General intermediate duration fixed income guidelines for active managers include the following:

- The minimum average quality rating of any intermediate duration portfolio will be BBB (Baa2) as measured by a major credit rating agency.
- Managers may invest in fixed income obligations issued or guaranteed by the U.S. government, its agencies, and instrumentalities; securities issued by U.S. and non-U.S. corporations such as promissory notes, bonds, mortgage bonds, convertible and non-convertible notes and debentures, preferred stocks, commercial paper, certificates of deposit, time deposits, repurchase agreements, reverse repurchase agreements and dollar rolls; delayed funding loans and revolving credit facilities; bankers acceptances issued by industrial, utility, finance, commercial banking or bank holding company organisations; inflation-indexed bonds issued by governments or corporations; structured notes including hybrid or indexed securities and event-linked bonds; loan participations and assignments; mortgage-backed securities and asset-backed securities (including collateralised loan obligations and collateralised debt obligations); bank loan obligations; Rule 144A securities; securities issued or guaranteed by U.S. local, city and state governments and their agencies, and instrumentalities; securities of non-US governments or their subdivisions, agencies and instrumentalities; securities of emerging market issuers (defined as obligations issued by entities domiciled in a country in the JP Morgan EMBI), denominated in U.S. dollars or non-U.S. currencies, issued by international agencies, supranational entities and non-U.S. governments and their agencies, instrumentalities and subdivisions.
- At least seventy percent (70%) of the intermediate duration portfolio assets, either directly or indirectly through investments in other commingled investment vehicles, must be in investment grade debt and fixed income securities rated at the time of purchase at least Baa3 or BBB-.
- Managers may use spot and forward currency contracts and currency futures as well as non-U.S. currency exchange-related securities and warrants
- No more than 40% of the intermediate duration portfolio may be invested in non-dollar denominated securities.
- No more than 30% of the intermediate duration portfolio may be invested in securities of U.S. issuers rated below investment grade.
- No more than 30% of any intermediate duration portfolio may be invested in securities of non-dollar denominated or non-U.S. issuers rated below investment grade.
- No more than 50% of the portfolio may be invested in a combination of non-dollar denominated securities and non-investment grade securities.
- Managers may invest in securities issued or guaranteed by the U.S. government or any of the G-7 countries, including their agencies and instrumentalities, without limit.

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- No more than 10% the intermediate duration portfolio may be invested in securities issued or guaranteed by a single government that is a non-G-7 country, including its agencies and instrumentalities.
- No more than 10% of the intermediate duration portfolio may be invested in private mortgage-backed and asset-backed securities of a single issuer unless the collateral relating to such securities is credit independent of the issuer and the security's credit enhancement is generated internally, in which case no more than 25% of assets may be invested in private mortgage-backed and asset-backed securities of such issuer.
- No more than 5% of the intermediate duration portfolio may be invested in the obligations of any other single issuer, excluding investments in commingled investment vehicles.
- No more than 5% of the intermediate duration portfolio may be invested in original futures margin and option premiums, exclusive of any in-the-money portion of the premiums.
- Managers may not invest in non-publicly offered securities with the exception of securities issued pursuant to SEC Rule 144-A or Regulation S.
- Derivative strategies and over the counter futures, options and swaps may be utilised if positions are consistent with the manager's overall investment strategy. Exchange traded futures may be utilised without approval prior to implementation. Specifically, derivatives may be used to a) provide a duration exposure at a lower cost than is possible in the cash market, b) manage the overall duration of the intermediate duration portfolio, and c) hedge. No derivative positions can be established to create positions or exposures that are otherwise prohibited by the policy guidelines.
- The manager may not create leverage within the intermediate duration portfolio through actively borrowing funds via reverse repo, a credit facility, or any similar mechanism in order to purchase securities in addition to equity capital.

Any exemption from the general intermediate duration fixed income guidelines or the manager's separate account guidelines requires prior approval.

7. Inflation-Sensitive Assets Objectives & Guidelines

Inflation-Sensitive Asset Target Allocation of the Total Fund: 25%

Inflation-Sensitive Asset Permitted Range within the Total Fund: 20-30%

Inflation-Sensitive asset investment managers retained by the GAVI Alliance will invest with a total return objective and provide the GAVI Alliance with inflation protection. The Inflation-Sensitive asset managers (including Real Estate and Hybrid Real Asset products) retained by the GAVI Alliance will follow specific investment styles and will be evaluated against specific market indices that represent their investment style. Investment results may also be compared to a peer group of returns from other managers investing with a similar style. The benchmarks for the various Inflation-Sensitive Assets portfolios may include the following indices:

- US Real Estate Investment Trusts (REITs) and Real Estate Securities – FTSE / NAREIT Equity Index
- Non-US Real Estate Securities – FTSE / EPRA/NAREIT 80/20 Europe/Asia Custom Index
- Global REIT and Real Estate Composite – FTSE / EPRA NAREIT Global Real Estate Index

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- Hybrid Real Assets – Consumer Price Index (CPI) plus 3% per annum
- Hybrid Real Assets – Dow Jones-AIG Commodity Excess Return Index
- Hybrid Real Assets – Barcap World Inflation Linked Bonds TR Hedged USD

General guidelines for active real estate securities managers include the following:

- The portfolio should be invested primarily in a diversified portfolio of real estate investment trusts and other real estate securities across geographies and property types.
- The managers will be primarily invested in equity and convertible debt securities of real estate investment trusts and real estate operating companies.
- Securities must be traded on a major global stock exchange or listed on the NASDAQ.
- There is no limit on the use of convertible securities in the real estate securities portfolio. Convertible bonds and stocks will be considered relative to the underlying common stocks and will be viewed as equity commitments.
- The following transactions are prohibited: short sales, selling on margin, writing options and transactions that involve a broker acting as a "principal", where such broker is also the investment manager who is making the transaction.
- Transactions shall be executed on the basis of "best price and execution," for the sole benefit of the Client.
- No more than 10% of the real estate securities portfolio will be invested in any single security.
- No more than 50% of the real estate securities portfolio will be invested in any single property type, as defined by the benchmark index.
- Cash and cash equivalents will be limited to 10% of the real estate securities portfolio's market value. Transitional cash can be held by Managers to affect security transactions. This cash will usually be invested daily in a Short-Term Investment Fund (STIF) offered by the custody bank or an investment manager or external investment company. The STIF must maintain stable principal value. The objective of the STIF is to maximise current income to the extent consistent with the preservation of capital and maintenance of liquidity. The Alliance must have a high quality rating, be well diversified and have a short maturity to accommodate continuous cash flow requirements.
- Any exemption from the real estate securities guidelines or the manager's separate account guidelines requires prior approval.

General guidelines for active hybrid real asset managers include the following:

- The portfolio should be invested primarily in a diversified portfolio of global inflation-linked bonds and commodity futures or commodities swaps agreements and other commodities derivatives that may be used per the approved manager's terms specified in the offering memorandum.
- A minimum of 75% of the global inflation-linked bond portfolio shall represent sovereign credit.
- The minimum credit quality of the global inflation-linked bond portfolio shall be AA-rated.
- Commodity futures shall trade on a recognised global commodities exchange.

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The GAVI Alliance will retain qualified external investment managers to manage portfolios based on a specific style and methodology. The managers will be expected to acknowledge in writing they are Plan fiduciaries, and will have full discretion and authority for determining investment strategy, security selection and timing subject to the Policy guidelines and any other guidelines specific to their portfolio. Performance of the portfolio will be monitored and evaluated on a regular basis relative to each portfolio component's benchmark return and relative to a peer group of managers following similar investment styles.

Investment actions are expected to comply with "prudent person" standards. Each investment manager will be expected to know the GAVI Alliance's policies (as outlined in this document) and to comply with those policies. It is each manager's responsibility to identify policies that may have an adverse impact on performance, and to initiate discussion with Staff toward possible improvement of said policies.

Staff will also review each investment manager's adherence to its Investment Policy (or its separate guidelines), and any material changes in the manager's organisation (e.g., personnel changes, new business developments, etc.). The investment managers retained by the GAVI Alliance will be responsible for informing Staff of such material changes.

Investment managers under contract to the GAVI Alliance shall have discretion to establish and execute transactions through accounts with one or more securities broker/dealer(s) as a manager may select. The investment managers will attempt to obtain the best available price and most favourable execution with respect to all of the portfolio transactions.

The following transactions will be prohibited: naked short sales; selling on margin; writing options other than covered options; and transactions that involve a broker acting as a "principal," where such broker is also the investment manager who is making the transaction.

Selection Criteria for Investment Managers

Criteria will be established for each manager search undertaken for the GAVI Alliance and will be tailored to the GAVI Alliance's needs in each such search. In general, eligible managers will possess attributes including, but not limited to, the following:

- The firm must be experienced in managing money for institutional clients in the asset class/product category specified by the GAVI Alliance.
- The firm must display a record of stability in retaining and attracting qualified investment professionals, as well as a record of managing asset growth effectively, both in gaining and retaining clients.
- The firm must have an asset base sufficient to accommodate the GAVI Alliance's portfolio. In general, managers should have at least \$1 billion of discretionary institutional assets under management, and the GAVI Alliance's portfolio should make up no more than 20% of the firm's total asset base. Exceptions shall be made on a case-by-case basis. In the case of a pooled vehicle, the GAVI Alliance's portfolio should make up no more than 25% of the vehicle's asset base.
- The firm must demonstrate adherence to the investment style sought by the GAVI Alliance, and adherence to the firm's stated investment discipline.

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- The firm must exhibit that operational and investment risk policies and controls are actively monitored and refined on an ongoing basis. These risk policies should include but are not limited to the following areas: asset valuation procedures; reconciliation of asset valuation differences; risk measurement; risk/return attribution analysis; risk reporting; policy compliance monitoring; system back-up and disaster recovery plans.
- The firm's fees should be competitive with industry standards for the product category.
- The firm must be willing and able to comply with the "Duties of the Investment Managers" outlined herein.

Criteria for Investment Manager Termination

The GAVI Alliance reserves the right to terminate an investment manager for any reason. Grounds for investment manager termination may include, but are not limited to, the following:

- Failure to comply with the guidelines agreed upon for management of the GAVI Alliance's portfolio, including holding restricted issues;
- Failure to comply with the manager's prospectus or offering memorandum;
- Failure to achieve performance objectives specified in the manager's guidelines;
- Significant deviation from the manager's stated investment philosophy and/or process;
- Loss of key personnel;
- Evidence of illegal or unethical behaviour by the investment management firm;
- Lack of willingness to cooperate with reasonable requests by the Committee or Staff for information, meetings or other material related to its portfolios;
- Loss of confidence by Staff in the investment manager.

The presence of any one of these factors will be carefully reviewed by Staff and the Committee when appropriate, but will not necessarily result in an automatic termination.

9. Management Review Procedures - Responsible Parties**Mission of the Investment Committee**

The Investment Committee ("Committee") is established by the Board ("Board") of the GAVI Alliance ("GAVI") to assist the Board in fulfilling its responsibilities in respect to the following:

- Management of GAVI's investments in a manner consistent with GAVI's operating needs and overall programme goals.
- Asset preservation and growth within GAVI's investment portfolio.
- Prudent maximisation of risk-adjusted returns on investment consistent with objectives stated in the Investment Policy.
- Supervision and management of cash assets consistent with the objectives stated in the Cash Investment Policy.

The Committee serves the Board and the Executive Committee in an advisory function in all matters covered by its Charter. In so doing, it shall be the responsibility of the Committee to maintain regular and open communication among Committee members and with the Board and the Executive Committee.

Duties of the Investment Committee

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The Investment Committee will perform all the duties and responsibilities as outlined in its Charter.

Duties of Staff

Staff or designate(s) will adhere to the following procedures in the management of the GAVI Alliance's assets:

- Staff shall support the Board and Committee in the development and approval of the Investment Plan, implement and monitor the Plan, and report at least semi-annually on investment activity and matters of significance.
- Staff shall review actual asset allocation quarterly to ascertain that the GAVI Alliance conforms to its asset allocation policy. Staff has discretion to rebalance asset allocation to policy percentages quarterly or when the allowable asset allocation ranges are violated.
- Staff shall provide for the collection and investment of contributions and investment income, the payment of expenditures, the maintenance of accounting and internal control systems, the estimating and monitoring of cash flows, and shall report to the Committee on matters of significance.
- Select qualified investment managers and/or individual investments for the Alliance's assets. Dismiss investment managers or terminate individual investments when prudent and appropriate.
- Monitor the performance of investment managers and individual investments to assure that the Alliance's investment objectives are being met.
- Rebalance the Alliance and make tactical allocation decisions based on information and advice provided by investment advisers and consultants.
- Meet with investment managers on a periodic basis.
- Select a master custodian from time to time, as necessary.
- Staff shall ensure that Investment Managers conform to the terms of their contracts and that their performance monitoring systems are sufficient to provide the Committee with timely, accurate and useful information.
- Staff shall provide for the voting of proxies.

Duties of Investment Managers

The Investment Managers shall:

- Provide the GAVI Alliance Staff with written agreement to invest within the guidelines established in the Investment Plan;
- Provide the GAVI Alliance Staff with proof of liability and fiduciary insurance coverage;
- Be an SEC-Registered Investment Advisor recognised as providing demonstrated expertise over a number of years in the management of institutional, tax-exempt assets and a defined investment specialty;
- Adhere to the investment management style concepts and principles for which they were retained, including, but not limited to, developing portfolio strategy, performing research, developing buy, hold and sell lists, and purchasing securities;
- Execute all transactions for the benefit of the GAVI Alliance with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost to the GAVI Alliance, and, where appropriate, facilitate the recapture of commissions on behalf of the GAVI Alliance;

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- Reconcile every month accounting, transaction and asset summary data with Master Custodian valuations, and communicate and resolve any significant discrepancies with the Master Custodian;
- Maintain frequent and open communication with the GAVI Alliance through Staff and the Consultant on all significant matters pertaining to the Investment Plan, including, but not limited to, the following:
 - Major changes in the Investment Manager's investment outlook, investment strategy, and portfolio structure;
 - Significant changes in ownership, organisational structure, financial condition or senior personnel;
 - Any changes in the Portfolio Manager or other personnel assigned to the GAVI Alliance;
 - All pertinent issues which the Investment Manager deems to be of significant interest or material importance; and,
 - Meet with Staff or its designates on an as-needed basis.

Duties of the Master Custodian

The Master Custodian shall be responsible for the following:

- Provide complete global custody and depository services for the designated accounts;
- Provide a Short Term Investment Fund (STIF) for investment of any cash not invested by managers, ensure that interest and dividends earned are collected, and ensure that all available cash is invested at all times;
- Provide bank deposits for any other excess cash using mutually agreed upon counterparty limits;
- Provide, in a timely and effective manner, a monthly report of the investment activities implemented by the investment managers;
- Collect all income and principal realisable and properly report it on the periodic statements;
- Provide monthly and fiscal year-end accounting statements for the portfolio, including all transactions; these should be based on accurate security values for both cost and market. These reports should be provided within an acceptable time frame;
- Report to the GAVI Alliance Staff situations where accurate security pricing, valuation and accrued income is either not possible or subject to considerable uncertainty;
- Provide assistance to the GAVI Alliance Staff to complete such activities as the annual audit, transaction verification or unique issues as required by the Committee;
- Manage a securities lending programme to enhance income.

Duties of the Investment Consultants

The Investment Consultant shall be responsible for the following:

- Make recommendations to Staff and the Investment Committee regarding Investment Policy and strategic asset allocations;
- Make recommendations to Staff and the Investment Committee regarding portfolio construction.

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- Assist Staff in the selection of qualified investment managers, and assist in the oversight of existing managers, including monitoring changes in personnel, ownership, and the investment process;
- Assist in the selection of a qualified Master Custodian, if necessary;
- Prepare a quarterly performance report on the GAVI Alliance's managers and total assets, including adherence to investment style and discipline and peer group comparison;
- Provide topical research and education on investment subjects that are relevant to the GAVI Alliance.
- Assist with special projects including manager transitions, investment related service provider fee negotiations, selection of commission recapture services, etc.

Duties of the Fund Operations Service Provider

The fund operations service provider shall be responsible for the following:

- Provide portfolio services for designated accounts, including:
 - performing cash and position reconciliations between money managers and custodian;
 - calculating monthly and period performance on all accounts and benchmarks;
 - monitoring money manager and fund compliance with investment guidelines;
 - developing valuation, reconciliation and pricing error tolerance policies;
 - managing securities price challenges between money managers and custodian.
- Assist the GAVI Alliance in monitoring regulatory developments and ongoing best practices for its operational controls;
- Provide due diligence services on investment related service providers and investment managers, including:
 - assistance with conducting due diligence evaluations of service providers and investment managers;
 - assistance with developing quarterly compliance certifications;
 - reviewing service providers' SAS 70 reports;
 - evaluating compliance programmes, including codes of ethics, Form ADV disclosures and Rule 206(4)-7 policies and procedures.
- Assist the GAVI Alliance Staff in coordinating and preparing investment related materials for Executive Committee, Investment Committee and Board of Directors presentations.

Attachment One

The asset allocation which follows contains guideline percentages, at market value, of total fund assets to be invested in various asset classes. Actual allocations may deviate from target percentages but may fall within allowable ranges at any specific period in time due to market conditions and the independent actions of the Committee, Staff and/or Manager(s).

GAVI Alliance Asset Allocation Targets and Allowable Ranges as of 31 December 2005

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Asset Class	Target Percent	Allowable Range
Fixed Income	75%	70 – 80%
<i>Short Duration</i>	40%	30 – 50%
<i>Intermediate Duration</i>	35%	25 – 45%
Inflation-sensitive	25%	20 – 30%
<i>REITs</i>	12.50%	5 – 20%
<i>Hybrid Real Asset</i>	12.50%	5 – 20%

GAVI Alliance Asset Allocation Targets and Allowable Ranges Prior to 31 December 2005

Asset Class	Target Percent	Allowable Range
Fixed Income	100%	100%
<i>Short Duration</i>	100%	100%

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GAVI Alliance Cash Investment Policy

1. Introduction and Scope

The purpose of this Cash Investment Policy is to assist the Investment Committee (“Committee”), and the Chief Financial and Investment Officer (“CFIO”) and his/her designates (the “Finance staff”) of the GAVI Alliance, in effectively supervising, monitoring, and managing cash assets under its care, regardless of the location or legal jurisdiction of the entity holding the cash.

Cash is differentiated for purposes of this Policy from the GAVI Alliance Investment Portfolio, which is subject to the Investment Policy. Specifically, “Cash” is defined as liquid funds in accounts held and owned by the Alliance. This Policy does not cover Cash which is held and invested on behalf of Alliance affiliated entities. Examples of this include:

- Cash held by the World Bank on behalf of IFFIm
- Cash held by the World Bank on behalf of GFA
- Cash held by the GAVI Alliance Immunize Every Child (a.k.a. The GAVI Fund) on its own behalf
- Cash held in trust for The GAVI Fund by the World Bank pursuant to a Trust Fund Agreement dated December 7, 2007.
- Cash held by the World Bank through the Advanced Market Commitment mechanism.

Cash held and invested by the World Bank is governed by the World Bank’s pooled trust fund investment policies as agreed in the relevant contracts which govern the Cash listed above.

Cash held by the GAVI Alliance Immunize Every Child (a.k.a. The GAVI Fund) is subject to its own Cash Investment Policy.

2. Cash Investment Goal Statement

The Alliance’s Cash investment goal is to earn interest income while avoiding loss of principal. The origin of most Cash entrusted to the Alliance is sovereign governments and private donors. For that reason, the Alliance will manage its Cash investments first for purposes of capital preservation, and interest income will be sought only to the extent fully consistent with the primary investment goal of capital preservation.

3. Financial Institution Requirements

The Alliance shall seek to keep its Cash in financial institutions with a minimum long-term credit rating of Aa3 from Moody’s, and AA- at Standard & Poor’s and Fitch. If the credit rating from two of these three sources falls below the minimum level, Finance staff will move the Cash to a financial institution with an adequate credit rating.

FOR DECISION**4. Permitted Cash Investments**

Alliance Cash placed with financial institutions will be held in the following “Permitted Investments”:

- **Money Market Funds**
 - The Alliance shall select Money Market Funds that are rated at least AA-/Aa3 by at least one of the primary rating agencies.
 - Money Market Funds are defined as funds regulated under Rule 2a-7 of the U.S. Securities and Exchange Commission.
 - US Treasury Funds invested primarily in securities issued by the US Government, agencies of the US Government (“Agency Obligations”), or agencies backed by the full faith of the US Government. There should be no more than 20% of the portfolio invested in Agency Obligations.
 - Prime Money Market Funds invested in a diversified mix of high quality money market instruments, such as US Government obligations, its agencies or instrumentalities, certificates of deposit, commercial paper, repurchase agreements, variable and floating rate notes, etc.

The benchmark for the Money Market funds will be the Citigroup 3 month T-bill Index.

- **Bank Deposits** - Cash can be held on deposit with a bank (i.e. credit exposure to the bank) under the following conditions:
 - The bank must be rated AA-/Aa3 or above, and
 - The amount of cash so held by any given bank be less than the greater of
 - 10% of the total cash portfolio, or
 - US\$ 35 million

5. Credit Quality and Monitoring

At the time of purchase, all Money Market Funds must be rated at least Aa3 with Moody’s, or AA- at Standard & Poor’s or Fitch.

If the rating falls below the required rating, the CFIO will be informed and will instruct Finance staff to transfer the money to an eligible investment or financial institution.

Should the net asset value of any Money Market fund fall below 1 at any time, immediate corrective action will be taken in consultation with the CFIO and the investment consultant.

Periodically, Finance staff will collect and review the following data for each bank or money market fund that holds or manages more than US\$ 5,000,000 in cash:

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	Monthly	Quarterly	Annually
Return against Benchmark	X		
The current long-term credit rating for the banks' senior, unsecured debt outstanding	X		
The credit rating of the Money Market funds	X		
Review of Money Market funds, including credit rating, holdings, performance and the stability of the management team		X	
Due diligence visit with banks and money managers to review their compliance procedures, certifications, including SAS 70 and other comparable reports, and to review controls and procedures			X

The Cash Investment Policy guidelines shall be reviewed periodically by the Committee to review compliance with organisational objectives and the dynamics of the capital markets.