Conservation Trust
INVESTMENT SURVEY

FOR CALENDAR YEAR 2014

Cover photo contributed by Zdenka Piskulich, Costa Rica Forever Association

CONSERVATION TRUST

Photo contributed by Lorenzo Rosenzweig Pasquel, Fondo Mexicano para la Conservación de la Naturaleza

INVESTMENT SURVEY

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Wildlife Conservation Society

Prepared in collaboration with the Conservation Finance Alliance, the Latin American and Caribbean Network of Environmental Funds (RedLAC) and the Consortium of African Funds for the Environment (CAFÉ).

October, 2015

Linden Trust for Conservation

Acacia Partners

GORDON AND BETTY MOORE FOUNDATION

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ACKNOWLEDGEMENTS

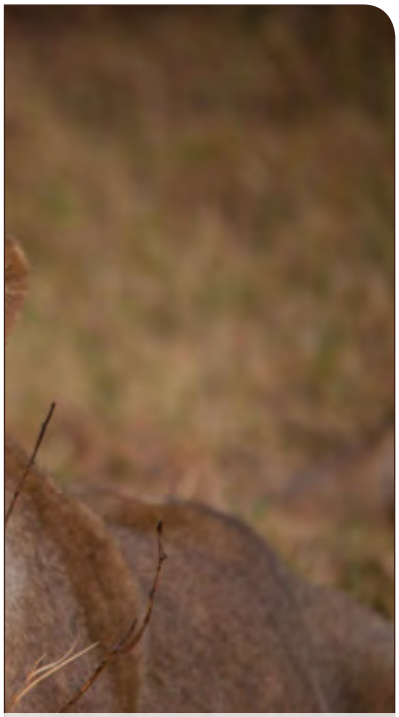

Photo contributed by Arnaud Apffel

The Conservation Trust Investment Survey (CTIS) project is produced by the Wildlife Conservation Society in collaboration with the Conservation Finance Alliance (CFA), a collaborative network of governments, multilateral agencies, NGOs, private companies, academic institutions and independent experts, connecting to address sustainable finance for issues and solutions in support of conservation. The Latin American and Caribbean Network of Environmental Funds (RedLAC) and the Consortium of African Funds for the Environment (CAFÉ) are key stakeholders and partners of the initiative.

Funding for the project has been provided by the Gordon and Betty Moore Foundation, Acacia Partners, and the Linden Trust for Conservation. This report is made possible due to the voluntary participation of Conservation Trust Funds (CTFs) and we would like to thank all those who took the time from their many responsibilities to complete the survey, provide comments and suggestions, and contribute photos for this project.

We are especially grateful for the assistance of the CTIS Advisory Team for their input into the survey instrument and the report: John Adams, Arnaud Apffel, Karine Barcelos, Carl Bruessow, Sylvie Goyet, Scott Lampman, Kathy Mikitin, Laura Nägale, Ravaka Ranaivoson, Lorenzo Rosenzweig, and Juan Pablo Vallejo. We give particular thanks to Greg Alexander and Scott O'Connell of Acacia Partners for their insightful analysis and commentary in the Foreword.

PHOTO THANKS

Each year, we ask the conservation finance community to provide photos to illustrate the CTIS report. Once again, we are stunned and gratified by the generosity and talent of the many people who contributed photo offerings this year. Specific thanks to the following people and organizations for sharing their work with us:

Emilio Acosta
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FOREWORD

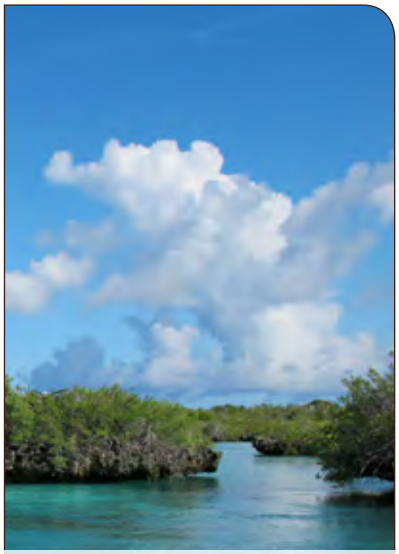


Photo contributed by Seychelles Islands Foundation

Dear Fund Manager,

We have enjoyed being present at the creation of the CTIS and once again contributing our thoughts for the eighth year of the survey.

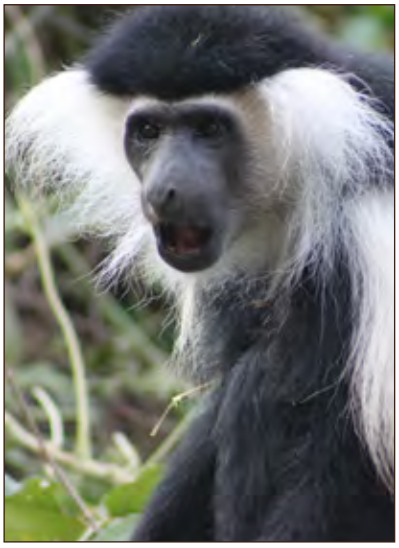


Photo contributed by Eastern Arc Mountains Conservation Endowment Fund

It is particularly satisfying to see that our conservation trust survey now encompasses $552 million in assets compared to $268 million when we began in 2006. From Mexico to Uganda to Papua New Guinea, conservation trusts are flourishing as never before. You should be proud of your role in protecting some of nature's most precious jewels.

The threats facing these landscapes will only increase in the future, requiring your trusts to grow their assets if these habitats are to be permanently preserved.

Unfortunately, the average endowment in the survey has 55% of its holdings in cash and fixed income - assets that do not grow. In fact, these assets often lose value over time leading to potential funding shortfalls.

Over the years we have highlighted a number of concepts for successful endowment management. This year we repeat a familiar theme which is critically important: conservation trusts will need to invest a much greater portion of their assets in stocks over time.

Unfortunately, the average endowment in the survey has 55% of its holdings in cash and fixed income - assets that do not grow.

In the 2010 survey we highlighted the case for increased allocations to equities:

"The best performance of the group is generally conceded to have been achieved during the tenure of Yale University's Chief Investment Officer, David Swensen. Many articles have been written about Swensen, who has become a living legend in the world of endowment management….

When Swensen was hired by Yale in 1985, he reviewed the historical returns of various assets over the decades… Swensen found that over the sixty years from 1925 to 1985… bonds, which suffered from an escalation in inflation over the decades, grew to only $8…. while $1 invested in stocks grew to $211.

One key lesson Swensen took from the data is that many endowments were keeping too much of their money in bonds. As Swensen puts it, "The need to provide resources for current operations as well as preserve purchasing power of assets dictates investing for high returns, causing the endowment to be biased towards equity. In addition, the university's vulnerability to inflation further directs the Endowment away from fixed income and toward equity investments."

Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

For its fiscal year ended June 30, 2014, Yale's endowment had 4.9% of its assets in fixed income and 3.5% in cash. It returned 20% for the year.

There are always problems in the world to make investors nervous about the risk of owning more stocks. Today, China's economy is slowing, the Middle East is in disarray, commodity prices have crashed and the US Federal Reserve is about to raise interest rates. However, investing conservatively based on worries over today's headlines is a formula for poor endowment returns. Bad headlines, in fact, often provide good opportunities for contrarian investing.

Photo contributed by MM Feeroz, Arannayk

Since 1900, the Dow Jones Industrial Average has declined by 5% or more on 388 occasions, an average of once every three months. A decline of at least 10% has occurred 123 times or roughly once a year[1]. Stocks regularly fall in value, and this "danger" keeps many investors away. Do lions roaming the Serengeti make it less worthy of protection? To the contrary! The higher returns offered by stocks are only available by accepting the inevitable short term risks that come with the territory.

According to Dalbar Associates[2], for the 20 years ending in 2014 the average stock mutual fund gained 9.9% per year. Yet the average investor in the funds gained only 5.2%. Why? When the stock market falls, investor emotions take over. Fearing the decline will end in calamity, investors sell to end the pain of watching their portfolio decrease in value. This often occurs near the very bottom of a decline when investors should be buying instead of selling. Only later, after the market has increased significantly, do they decide it is "now safe" to invest again, usually at far higher prices.

Selling in response to short term news is costly. From 1995 to 2014, $10,000 invested in the S&P 500 would be worth $66,000 at the end of 2014. But the skittish investor would have only $27,500. Over 40 years the difference is staggering: $428,000 for the buy-and-hold investor and $75,000 for the nervous, emotion-driven investor.

As Josh Brown writes in a recent column in Fortune magazine about stocks, "This higher rate of return makes a big difference over years and decades as it compounds your wealth, but it comes at a price. You aren't awarded this premium just for waking up in the morning; you have to earn it. You earn it by balancing all the short-term negativity against your awareness of your own long-term-return needs."

[1] https://www.americanfunds.com/individual/planning/market-fluctuations/past-market-declines.html
[2] Dalbar Associates, Qualitative Analysis of Investor Behavior," 21st edition, company press release April 21, 2015.

Imagine a manager of a trust investing 100% of the trust's assets in the S&P 500 at the beginning of 2008. Such an investment could not have been more poorly timed given the 2008 financial crisis about to swamp the market. Yet, amidst the crisis, a rational manager would recognize the trust is a long-term investor and when stocks decline their expected future returns increase. And surprisingly, from the beginning of 2008, including the worst crisis since the Great Depression, a portfolio of 100% stocks (using the S&P 500) would have returned 7.3% annually through 2014.

Photo contributed by MK Hasan, Arannayk

Market timing, selling stocks in anticipation of a significant stock market decline, is a loser's game. As William Smead who manages $30 billion (per the SEC) puts it[3], "There have been piles of academic and industry research that refute any claim of merit for market timers…cull the list of billionaires in Forbes' latest edition and you'll be hard pressed to find a market timer."

Andrew Smithers, a respected UK money manager and the author of the 2000 book "Valuing Wall Street" which anticipated the 2000 bear market, believes U.S. stocks are expensive today. Yet his research into long-term investment strategies on behalf of Cambridge's Clare College, led him to an emphatic conclusion: investors with long-term horizons should maintain a minimum of 60% in stocks, even when stocks trade at high valuations.

According to Smithers, average returns from stocks have historically been so superior that even overvalued stocks are likely to prove a reasonable bet. Smithers says stocks have produced compound average annual returns of 6.8% above inflation - compared with around 3.5% for bonds and 2.8% for cash.

Finally Smithers says investors who move into cash intending to invest these funds back into the market after stocks have dropped often don't. In a falling stock market fear takes over and the cash is often never reinvested.

Photo contributed by Eastern Arc Mountains Conservation Endowment Fund

Stock markets can decline sharply and occasionally stay down for a number of years. An endowment that sells stocks after they decline turns temporary paper losses into permanent capital destruction by missing the inevitable rebound. To prevent forced selling to meet payouts, an endowment might keep three to five years of distributions in cash and short term, high-quality bonds. This ensures annual operating expenses are funded without needing to sell stocks in a depressed market.

Market returns have been excellent since the financial crisis and until mid-2015, the S&P 500 hadn't suffered a 10% drop in the last three years. While a case can be made to immediately increase your allocation to stocks, after three up years, history suggests a market correction is on the horizon. As we wrote in the 2013 survey "Make a plan to increase holdings of stocks over time. You could preplan to switch 5% of bonds into stocks every six months regardless of what the market has done. Additionally anytime the market falls by 10% you could add another 5% to stocks. Whatever the details, have some kind of plan."

Master investor Warren Buffett recently said of the stock market, "I'm no good on what's going on in markets. I have no idea what will happen tomorrow or next week.

[3] Smead Capital Management, Smead Blog, "1Q15 Newsletter: Eliminating the Confusion about Active Equity Management," 4/16/15.

Sometimes they get very volatile like this and other times they put you to sleep, but the important thing is where they're going to be in 5 to 10 years. And I'm confident that they'll be considerably higher in 10 years, and I really have no idea where they'll be in 10 days or 10 months … stock prices will always be far more volatile than cash-equivalent holdings. Over the long term, however, currency-denominated instruments (cash and bonds) are far riskier investments than widely-diversified stock portfolios."

If perhaps the greatest investor of all time believes stocks offer the highest and safest returns over the long term isn't that good enough for your trust?

We encourage you to continue to read, study and learn about investing. Your CTF and its work defending some of the world's most important natural wonders will benefit immensely from your efforts.

With continued best wishes,

Sincerely,
Gregory Alexander

Photo contributed by MM Feeroz, Arannayk

Photo contributed by MM Feeroz, Arannayk

EXECUTIVE SUMMARY

Photo contributed by Emilio Acosta, Costa Rica Forever Association

Conservation Trust Funds (CTFs) are private, legally independent grant-making institutions that provide stable, sustainable, long-term sources of funding for the protection and sustainable management of natural resources in areas of high biodiversity. CTFs typically encompass one or more endowments and/or sinking funds, and are able to use income from investments to provide a reliable source of support for management of protected areas, long-term investment in conservation programs and projects and financing for indigenous communities. With a stable source of operational funding from investment returns, these trusts are also effective in managing and disbursing funds from a variety of sources to support conservation and sustainable livelihood projects. Effective and prudent management of invested assets is critical to the success of the CTFs.

Since 2006, the Conservation Trust Investment Survey (CTIS) has been tracking the financial performance and investment strategies of CTFs throughout Africa, Asia, Eastern Europe, Oceania, Latin America and the Caribbean. The Conservation Trust Funds described in this study manage endowment funds, sinking funds, revolving funds[4], or all three. The information reported in this study is based on a variety of investments denominated both in the local currency of the CTFs' home countries, and in international currencies, including US dollars and Euros. The investments range from those held in local banks or fixed deposit receipts, to more complex investment portfolios managed by international investment firms.

In 2014, we saw a resurgence of some fixed income markets and slightly lower equity returns in US and developed markets. After very high returns in 2013, the stock markets returned to levels closer to 2012 -- the S&P 500 total return performance was 13.69% in 2014, compared to 32.4% in 2013 and 16% in 2012. The MSCI World

Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

[4] A revolving fund is one that is filled and depleted in a short time period, typically less than one year. Often these funds accommodate Payments for Ecosystem Services that are managed by a CTF to achieve conservation goals in collaboration with National Governments. Because these monies are not typically invested, they are not addressed in any depth in this report, but we have begun collecting limited data on them as they are important conservation financing mechanisms and show the breadth of funds that CTFs are managing.

Index, a measure of developed markets equity total return, returned only 5.5% in 2014 versus 16.54% in 2012 and 27.37% in 2013. Fixed income/bond returns recovered to some extent in 2014, with a 5.97% return in 2014, compared to -2.02% in 2013, 4.21% in 2012 and 7.84% in 2011, as measured by the Barclays Capital US Aggregate Bond Index.

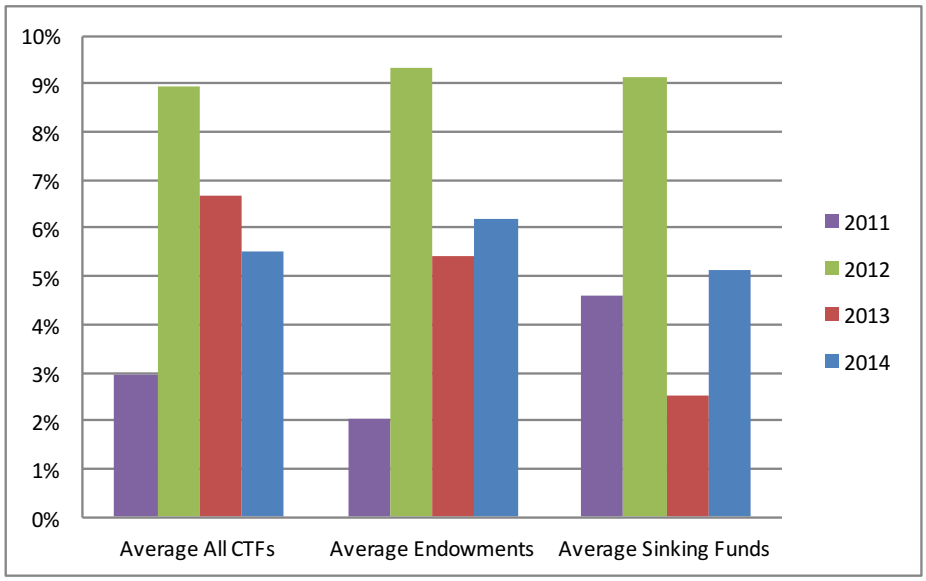
Photo contributed by Lorenzo Rosenzweig Pasquel, Fondo Mexicano para la Conservación de la Naturaleza

The CTIS draws on the example of the National Association of College and University Business Officers (NACUBO) annual study of college and university endowment investment performance (the "NACUBO-Commonfund Study of Endowments"), and we look to recent NACUBO studies for examples of how other endowments performed in the same time period. As the NACUBO study reports on a June 30 fiscal year basis, the comparisons are not perfect, but provide useful references nonetheless. For fiscal year 2013, the average return of participating university and college endowments was 11.7%; in fiscal year 2014, the average return was 15.5%. While many of the participants are significantly larger than most of the CTIS participants, the performance by peer group is also helpful. For fiscal year 2014, the average return for endowments in the $25-$50M range was 15.2% and in the under $25M range was 15.5%.

Overall returns for the Conservation Trust Funds participating in this study are somewhat lower this year than last year. On average, the CTFs reported nominal organizational returns[5] of 5.52%, down from an average of 6.65% in 2013. Endowment funds returned, on average, 6.22% in 2014, up from 5.44% in 2013. Sinking funds returned, on average, 5.11% in 2014, up quite a bit from 2.54% in 2013. When inflation is considered, the average endowment real return is 4.08% and the average sinking fund real return is 1.83%.

Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

Graph 1: Average Nominal Annual Returns, 2011-2014



The returns reported here are significantly lower than those enjoyed by the institutions included in the NACUBO-Commonfund Study of Endowments. A large part of the difference is likely attributed to asset allocation. As demonstrated in this report, average asset allocation for endowment funds of CTIS participants was 44.7% equities,

[5] Organizational returns represent the overall average returns of a CTF that may manage and invest both multiple endowments and/or sinking funds. For CTFs that manage multiple funds, the organizational return is the weighted average of all returns. For those that manage only one fund, the organizational return and fund returns are the same. Fund returns are reported specifically for endowments and sinking funds separately.

alternatives & other and 55.3% fixed income & cash, while the NACUBO institutions invested 13% in fixed income and cash and the remainder in alternatives, equities, and other. It is notable, of course, that the time periods are different (fiscal years ending June 30 versus calendar year) which may contribute to the different returns; however, returns of 11-15%, compared to CTIS returns of 5-6%, are a marked difference which is likely not fully explained by the time period variance.

Graph 2: CTIS 2014 Asset Allocation vs. NACUBO-Commonfund Endowments

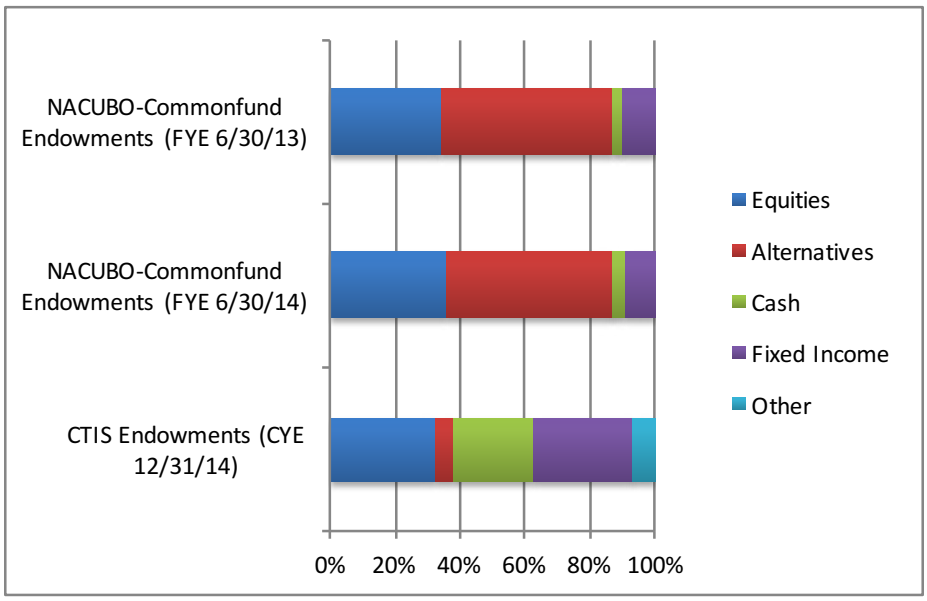


Photo contributed by MK Hasan, Arannayk

On a historical basis, three-year average nominal returns for the period ending in 2014 were 6.51%, and the five-year average returns were 6.14%.

Thirty-five (35) CTFs participated in the study this year, including one CTFs participating for the first time. The participating CTFs represent conservation efforts in nearly 40 countries, on six continents, and range from small endowments protecting a single species in a specific ecosystem, to large national or regional institutions funding conservation efforts, supporting protected areas and conserving biodiversity throughout an entire country or for a transnational ecosystem.

The 2014 CTIS study continues the comparative analysis by region. In 2014, the groupings are made to reflect the two existing CTF networks (RedLAC in Latin America and the Caribbean, and CAFÉ in Africa), as well as the planned creation of a similar network in Asia/Oceania. However, not all participants in Latin America/Caribbean or Africa are members of a network. Such regional analysis is possible due to the strong participation rates in each of these regions.

Photo contributed by Zdenka Piskulich, Costa Rica Forever Association

With funding from the Gordon and Betty Moore Foundation, the Linden Trust for Conservation and Acacia Partners, the CTIS continues to expand to provide additional analysis and educational support to the CTFs and other CTIS audience members. Recently, the CTIS project completed a study on initiatives and options for CTFs to pool together to realize greater efficiencies and cost savings; investment management was one of the topics explored in the report. Building on the online hub of the CTIS webpage at the Conservation Finance Alliance website and this annual report as a foundation, we are exploring investment management education and workshop programs to enhance the knowledge base of CTF Board members and staff.

INTRODUCTION

Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

BACKGROUND

Conservation Trust Funds provide long term financing for management of protected areas, conservation projects and sustainable development. The significant majority of the CTFs participating in this study are managed as private organizations, independent of government. They are generally capitalized by grants from donor agencies, governments, foundations, nonprofit organizations, individuals and corporations.

Since the establishment of the first CTF in the early 1990s, Conservation Trust Funds have proven to be highly successful in providing stable funding sources by effectively managing income from investments and leveraging those monies to secure grants and other funds for conservation projects. As of this writing over 70 Conservation Trust Funds have been established or are in active development, in Africa, Latin America and the Caribbean, Asia, Eastern Europe and Oceania, building on the structure and functional example of the early CTFs. Many of these CTFs have surpassed or are nearing two decades of continuous and successful operations and readily demonstrate the effectiveness of the CTF model. Recent years have seen growth in the number of regional Trust Funds, established to support protected areas or conservation goals that cross national boundaries.

Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

Conservation Trust Funds have been able to use the income from endowment and sinking fund investments to cover their administrative and operational needs, and provide grant financing for activities and projects that are consistent with their mission and objectives. Moreover, the CTFs have been able to leverage their finance and administrative capability to raise additional funding for projects. While most CTFs were originally established to provide a source of reliable funding for the operating costs of managing protected areas, many have become substantial national institutions, with multiple effective mechanisms to

- Manage and disburse funds to support a variety of conservation activities;
- Bridge local knowledge and conservation needs at a country or regional level

with international funding opportunities;

- Provide stable management of protected areas through periods of economic or political volatility;
- Provide funding for indigenous communities and sustainable income development projects;
- Initiate partnerships with the private sector to support sustainable business practices and to create innovative funding sources for conservation projects;
- Manage funds from Payments for Ecosystem Service (PES) schemes and other similar sources;
- Initiate long-term programs that provide sustainable payments for improved land management in support of biodiversity conservation;
- Provide permanence and stability to long-term conservation efforts.

This CTIS study is designed to provide information that can assist established CTFs in analyzing their investment strategies and to create a foundation upon which new or nascent CTFs can learn from the experience of others. With the 2012 survey we added the option for CTFs to elect to share their raw data with one another. Thirty-one (31) CTFs elected to share data with each other in 2012, 37 respondents elected to do so in 2013, and 33 elected to share data in 2014. These respondents have access to the raw data of those that have made a similar election, via the CTIS webpage. Through this mechanism, CTFs have the ability to construct custom peer groups, draw more detailed conclusions, and identify specific peers to contact for more information. In early 2014, we launched the CTIS webpage on the Conservation Finance Alliance; the goal of this webpage is to serve as an information hub for CTFs on topics of investment and asset management. The webpage can be found at http://conservationfinance.org/ctis.php.

Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

OBJECTIVES

The main objective of this study is to report on the performance and present the investment strategies and structures implemented by participating Conservation Trust Funds. A secondary objective is to serve as an educational vehicle to promote discussion about investment management approaches and concepts.

This report will focus on the following financial information gathered through surveys of each participating CTF:

- Demographics of the participating CTFs
- Investment returns
- Asset and currency allocation
- Investment policies and management

Photo contributed by Eastern Arc Mountains Conservation Endowment Fund

METHODOLOGY

Photo contributed by Renata Zambianchi, Funbio

SURVEY FORMAT, ORIGINATION

This report is designed to gather and present financial information from privately directed Conservation Trust Funds (CTFs) that manage endowments, sinking funds or revolving funds with the mandate to provide long-term financing for conservation and sustainable development. Creation of the CTIS drew on the experience of the Commonfund-National Association of College and University Business Officers (NACUBO) annual survey of the performance of US college and university endowments.

DATA COLLECTION

The survey for the calendar year ending December 31, 2014 was administered in two parts and emailed to all participating CTFs. Part 1, covering investment strategy and policy, was made available in MS Word as well as in an online (web-based) format. Part 2, covering investment returns, portfolio allocation and fees, was made available in MS Excel. The questionnaires were available in English, Spanish and French. The CTFs were encouraged, where practicable, to ask their external investment management professional to complete Part 2 of the survey. Surveys were distributed by the CTIS Project Manager, the Latin American and Caribbean Network of Environmental Funds (RedLAC) Secretariat, and the Consortium of African Funds for the Environment (CAFÉ) Secretariat. Direct requests for participation were sent to 84 organizations.

DATA INCLUSION

A total of 35 organizations completed all or part of the survey. Thirty-five (35) completed Part 1, Strategic Management and 31 completed Part 2, Financial Data. Responses to some questions have been removed at the discretion of the authors, where a response was incomplete or, in the authors' judgment, the response did not make sense in the context of the question asked.

Photo contributed by Lorenzo Rosenzweig Pasquel, Fondo Mexicano para la Conservación de la Naturaleza

CONFIDENTIALITY

The CTIS project is committed to maintaining the confidentiality of each participating CTF's data submissions in the published report. Contact information for each of the participating CTFs is provided; however, all financial data is reported anonymously and we have taken steps to ensure that data cannot be tied to specific funds in the published study. The survey instrument provided the option for respondents to opt-in to a voluntary sharing of data with peers. Those respondents who elected to do so will have access to the data of the other CTFs that have given similar permission; this data access will be limited to the specific years in which they have opted-in. The data will be available in a password-protected file. Those CTFs that declined to participate in this data sharing opportunity are included in this study; their data will not be made available for peer comparison. Of the 35 survey respondents, 33 have elected to participate in the data sharing for 2014; two declined to participate.

Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

FISCAL YEAR

All data and reporting are based on the calendar year 2014 ending December 31st unless noted.

RETURNS

All performance data (returns) are reported net of management fees and expenses. All returns are reported to the CTIS in the currency in which the CTF measures the fund's performance; when a portfolio contains returns in multiple currencies, the authors have converted to US dollars to report the weighted average return for the portfolio.

STATISTICAL VARIANTS

Survey participants were encouraged to answer as many of the questions as possible; however, not all respondents completed all questions. Therefore, the data tables in this report do not necessarily reflect a response from every participant. We indicate the number of respondents for a given table or graph with "n=" wherever possible.

ACCURACY

The data and conclusions in this report rely on information that is self-reported by the staff of Conservation Trust Funds and, where applicable, by the external investment management professionals hired by the CTFs and duly authorized to report financial data to the CTIS project on behalf of the participating CTFs. The authors have not independently verified the accuracy of the data submitted by the participants.

The Glossary has been developed to improve accuracy by ensuring that all participants are using the same terminology, and is provided with the CTIS questionnaire. The contents of the Glossary have been developed in partnership with the authors of the "Practice Standards for Conservation Trust Funds" to ensure consistency across projects.

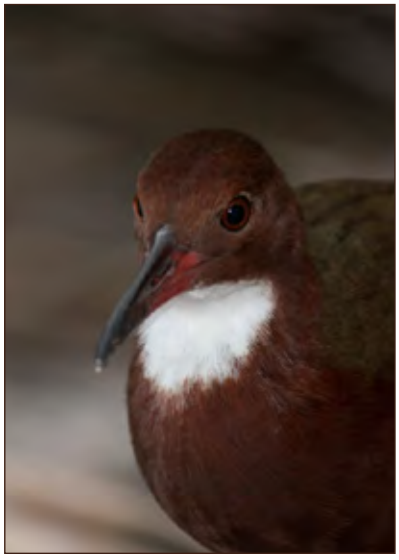


Photo contributed by Seychelles Islands Foundation

AVERAGE RETURNS

Following procedures used in the Commonfund-NACUBO study, average return values provided in this report are calculated as equal-weighted averages, meaning that each reporting CTF has an equal influence on the outcome of the average calculation, regardless of the size of the investments. This allows each individual CTF to compare its returns to those of other CTFs participating in this study. Organizational returns are based on the weighted average of returns for all funds reported by an institution. Fund returns reflect the returns reported by the CTF for a specific fund. Three- and five-year averages are calculated as compound returns.

Photo contributed by MM Feeroz, Arannayk

Photo contributed by Arnaud Apffel

PARTICIPATING FUNDS

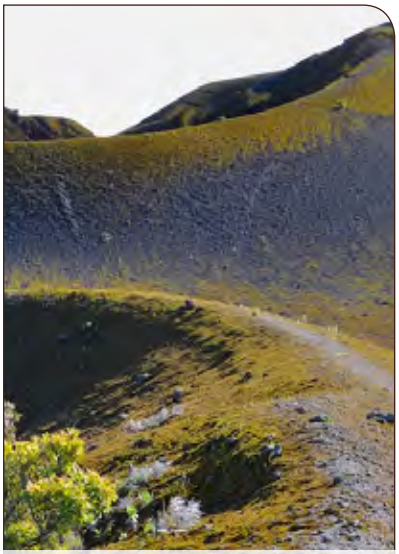


Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

Conservation Trust Funds participating in this study manage both endowments and sinking funds. Most of the CTFs are established as private foundations or trusts; many are established as Non-Governmental Organizations (NGOs) or have been incorporated as not-for-profit Limited Liability Corporations (LLCs) governed by charity or trust law. The CTFs are generally established in the country where they operate and are managed by a board of directors with members from both the public and private sectors. In some cases, the CTFs have been incorporated in third-party countries due to legal or financial constraints or administrative necessity; this is frequently also the case for regional CTFs supporting conservation work in multiple countries. The CTFs range from highly focused organizations that manage a single fund to support one protected area, to sizeable nonprofit organizations that manage and invest numerous funds on behalf of varied conservation objectives.

Thirty-five (35) CTFs participated in the CTIS study this year. All 35 participated in Part 1 (organizational & strategic data) and 31 provided financial returns and portfolio allocations. In many cases, those that did not provide financial returns have recently begun investing or are still in the process of investing, and did not have returns to report.

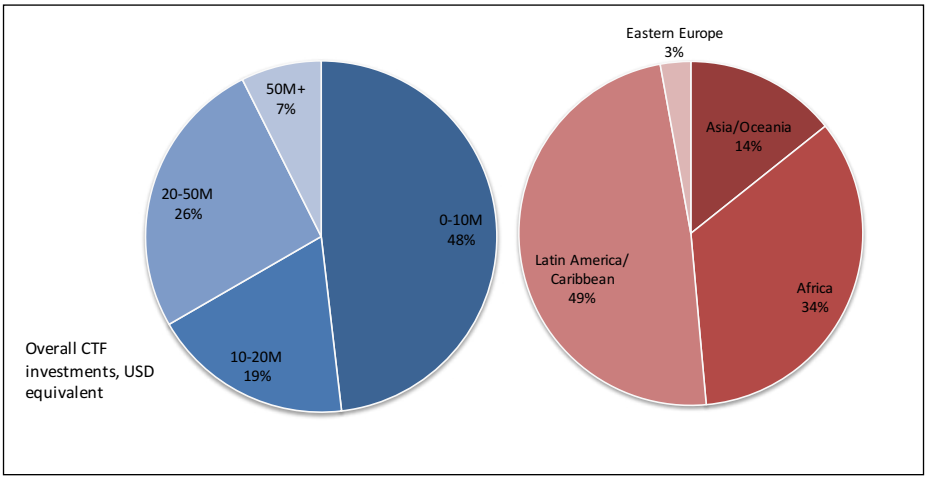
In aggregate, the participating CTFs manage nearly $599 million in US equivalent dollars. The CTFs manage endowments and sinking funds ranging from $1.2M (US equivalent) to nearly $120M.

Among those respondents that provided asset values, two have aggregate investments in excess of $50M (US Dollar equivalent), seven have investments between $20M and $50M, five have investments between $10M and $20M, and 13 have investments totaling less than $10M, as of December 31st, 2014.

Photo contributed by Arnaud Apffel

Latin American and Caribbean CTFs constituted 49% of the respondents, while 34% were African CTFs, 21% came from Asian or Oceanian CTFs and 3% came from Eastern Europe (see Graph 3).

Graph 3. Participant Demographics



ENDOWMENT AND SINKING FUNDS

The CTFs analyzed in this report manage endowment funds, sinking funds, or both.

For purposes of this study, a **fund** is defined as *a sum of money that can only be used for specific purposes, typically for conservation objectives. A fund may have a governing body separate from, but acting in concert with, the governing body of the CTF.*

An **Endowment fund** *is a sum of money that is intended to exist in perpetuity or preserve its capital over a long-term timeframe; an endowment's capital is invested with a long-term horizon and normally only the resulting investment income is spent, in order to finance particular grants and activities.*

A sinking fund *is defined a pool of monies that will spend down its capital within a designated period of time (e.g. 10, 20, 30 years). The entire principal and investment income is disbursed over a fairly long period (typically 10 to 20 years) until it is completely spent and thus sinks to zero.*

Both types of funds result in stable funding sources with long-term benefits, though endowments, as a more permanent funding source, can create additional benefits, including the ability to support ongoing activities over a longer period of time, to enhance community buy-in, to create payment systems that provide longer-term incentives for conservation results, and to form government and private partnerships. In some cases, a CTF can set up a sinking fund in tandem with a new endowment in order to provide the CTF with a source of guaranteed revenue for several years, while allowing the endowment to reinvest its returns to build a larger capital base. Typically, endowments are expected to preserve purchasing power over time, meaning that at minimum they generate sufficient returns to keep pace with inflation. This ensures that future generations will enjoy the same economic benefits from the endowment as the current generation.

Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

Photo contributed by Lorenzo Rosenzweig Pasquel, Fondo Mexicano para la Conservación de la Naturaleza

Twenty-two (22) of the participating CTFs manage a single endowment or sinking fund, and seven manage two or more funds. In total, the 35 participating CTFs are managing 42 investable funds; 26 of these are endowments, 15 are sinking funds, and one was reported as combined data. In addition, two of the CTFs reported that they also manage revolving funds, numbering five between the two of them. It is worthwhile to note that the responding CTFs were asked to report their data in alignment with the definition of "fund" above, and for the most part seem to have done so. In some cases, the responding CTFs may have, for reporting purposes, combined multiple funds that are co-invested under the same investment guidelines, or may have labeled as a "fund" what was actually a portfolio (monies from a fund parsed into groupings by shared investment guidelines, rather than by governance or conservation purpose). This produces a small degree of confusion in the data, but the overall effect is minimal and the important distinction here, for analysis purposes, is that the data are clearly distinguished as "endowment" or "sinking fund" as this is vital for comparability. Strengthening the consistency of the data reporting remains an opportunity for continual improvement.

Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

AREA AND AGE OF PARTICIPATING FUNDS

This report has compiled data from 35 responding CTFs. Fifteen (15) of these respondents have participated in the study in every year since 2006, providing the opportunity to analyze investment data over multiple years. Each year, new CTFs join the study (one this year), many of them newly established CTFs that have just begun investing. While CTFs rarely drop out of the study permanently, some do decline to participate in a given year due to time constraints or other issues. This year, five regular participants opted not to respond, a much higher than usual number. In addition, five CTFs that participated for the first time last year declined to participate this year. Of these, one indicated plans to return when it has investment returns to report. Overall, we think that the relatively low participation rate is an aberration this year but we will be conducting further in-person inquiries to determine if there are issues that can be addressed in next year's study or if it represents a persistent trend.


Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

The responding organizations range in age from two to 23 years since formation, with an average age of nine years.

Africa

Twelve (12) African Conservation Trust Funds completed the survey this year; all of them are members of the Consortium of African Environmental Funds (CAFÉ). On average, the African CTFs participating in the survey are 10 years old, and those that provided financial data have average investments of $15.5M (USD equivalent).

Latin America and Caribbean

Seventeen (17) CTFs from the Latin America and Caribbean region completed the survey this year; 16 of these CTFs are members of the RedLAC network. On average, the Latin American/Caribbean CTFs participating in the study are nine years old and those that provided financial data have average investments of $24.9M (USD equivalent).

Asia and Oceania

Five (5) CTFs in Asia and Oceania participated in the CTIS this year. On average, the Asia/Oceania CTFs participating in the study are eight years old and those providing financial data have average investments of $6M (USD equivalent). As of this writing, CTFs in the Asia-Pacific-Oceania region are collaborating to form a network modeled on the experience of RedLAC and CAFÉ, for the purposes of sharing knowledge and ideas.

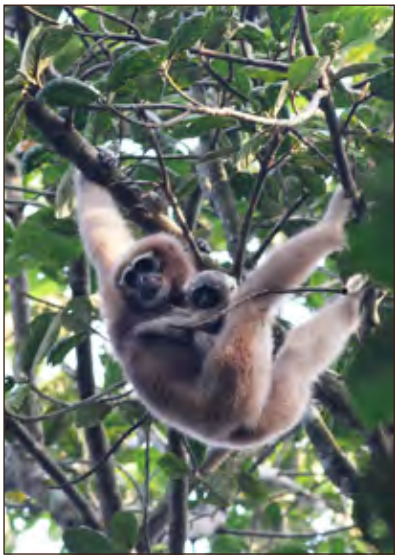


Photo contributed by MM Feeroz, Arannayk

Eastern Europe

There is currently one participating CTF based in Eastern Europe, the Caucasus Nature Fund. Because there is only one CTF we do not break out this region for separate analysis; data from CNF is included in all aggregate analysis and their long-term participation in the study is greatly appreciated.

CURRENCY

The CTFs participating in the study invest in a variety of currencies – for analysis purposes we group them according to which currencies they use to measure financial performance. Thirty-five (35) percent of the CTFs measure financial performance in domestic or primarily domestic currencies, and 65% measure financial performance in foreign currencies, specifically US dollars or Euros (no CTFs use US dollars or Euros as their domestic currencies). Forty-eight (48) percent of the funds managed by CTFs are measured in US dollar or primarily US dollar-denominated portfolios, though it is important to note that even funds measuring performance in US dollars are frequently invested in other currencies and markets (See Asset Allocation and Diversification, below). Ten (10) percent of the funds are in Euro or primarily Euro portfolios and 35% are in exclusively or primarily domestic portfolios. Seven (7) percent of the funds are in a mix of currencies, with no one currency dominating. The domestic currencies in use include Paraguayan Guaranis, Colombian Pesos, Brazilian Reais, Belize Dollars, Philippine Pesos, Bangladeshi Takas and Botswanan Pulas.

Graph 4: Primary Currencies of Funds

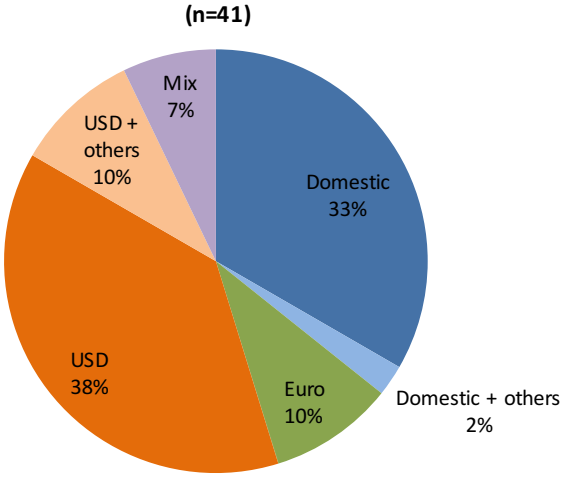


Photo contributed by Lorenzo Rosenzweig Pasquel, Fondo Mexicano para la Conservación de la Naturaleza

RESULTS AND ANALYSIS

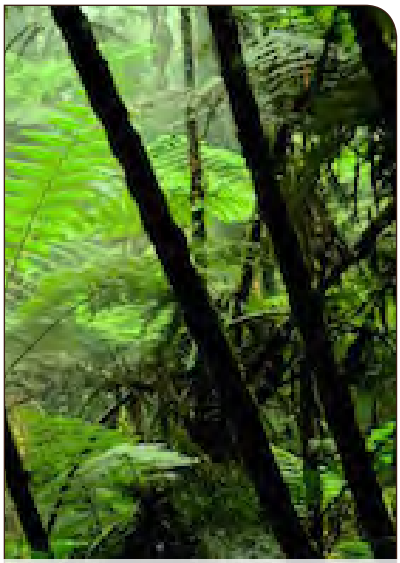
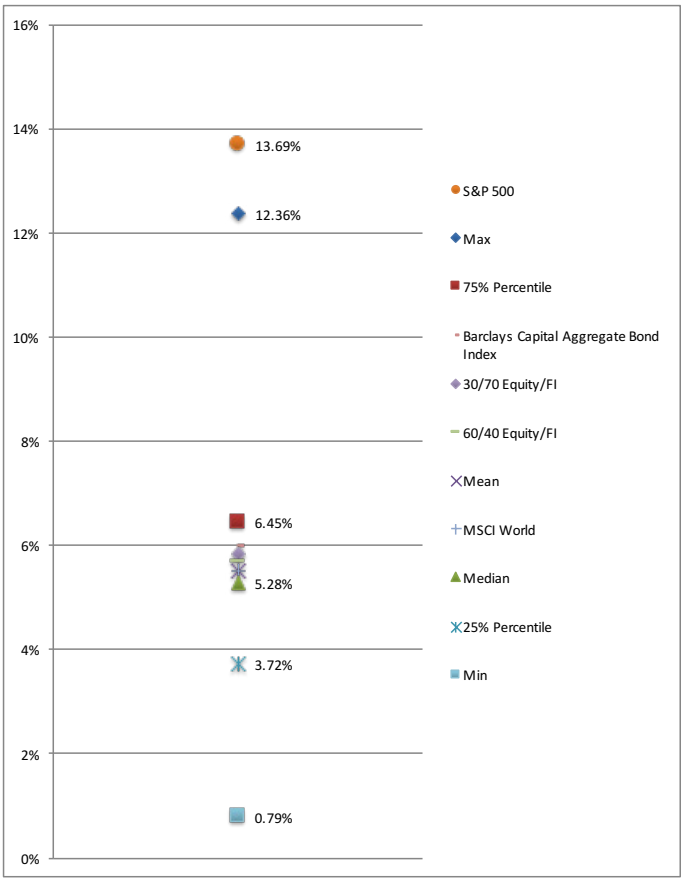


Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

OVERALL ORGANIZATIONAL RATES OF RETURN (NOMINAL)

The Conservation Trust Funds providing investment returns for the calendar year 2014 reported nominal organizational returns ranging from 0.79% to 12.36%, with an average of 5.52% and median of 5.28%. Organizational returns of seven CTFs fall in the interquartile range between the 25th percentile of 3.72% and the 75% percentile of 6.45%.

Organizational returns are the weighted average returns for all funds managed by a CTF.



Graph 5. Nominal Organizational Returns

Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

Overall, it appears that, on average, the smaller organizations experienced higher returns in 2014, while larger CTFs experienced lower returns, as shown in Table 1. This is somewhat counterintuitive in that one might hypothesize that larger organizations would have access to more investment options, therefore yielding higher returns.

Table 1: Average Organizational Returns by Size

Size (USD Equivalent) (n=32)	Avg. Org. Returns
0-10M	6.3%
10-20M	5.5%
20-50M	4.2%
50M+	5.6%
Overall	5.5%

In fact, a regression analysis of size (both of portfolio and of organization) and returns showed little relationship, suggesting that size is not a factor in returns. Looking more closely into the returns within each grouping shows such a high degree of variability (nominal returns in the 0-10M USD group, for example, ranged from 3% to 9.81%) that no real conclusions can be drawn about the potential impact of size on returns.

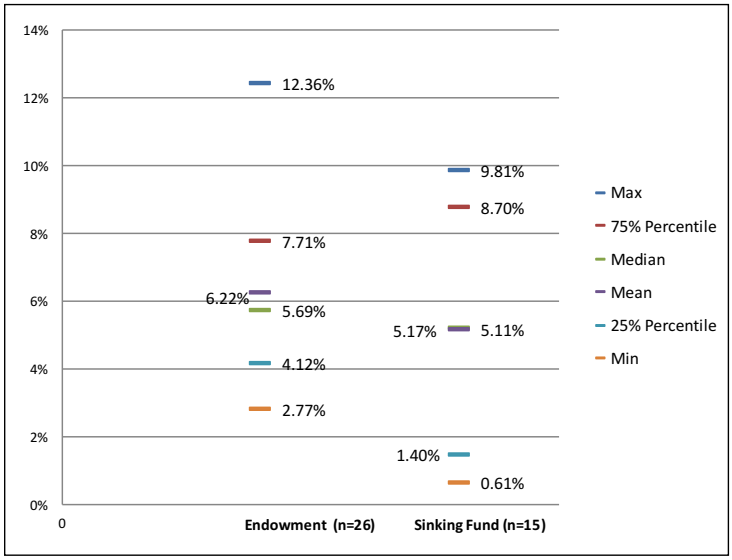
Similarly, one might hypothesize that the older and more established CTFs would demonstrate higher returns due to more years of investment experience. However, a regression analysis similarly showed no meaningful correlation between age and nominal organizational returns, indicating age alone is not a fully explanatory factor.

It is important to note that these are nominal returns, not adjusted for inflation.

FUND INVESTMENT PERFORMANCE

A comparison of endowment funds to sinking funds shows fairly consistent performance across the two types of funds. Endowments had an average nominal return of 6.22% and a median return of 5.69%, compared to Sinking Fund average returns of 5.11% and median returns of 5.17% (Graph 6). Returns over the last three years (Table 2) show that while some years show more divergence than others, in general the nominal sinking fund and endowment returns are relatively close.

Graph 6: Nominal Fund Returns



Notes on Risk

Risk is a critical consideration in developing an investment strategy. In the context of investments, risk is typically measured by the volatility of an investment opportunity, that is, how likely the investment is to deviate from an expected or predicted return. A bond issued by a G7 country with a fixed rate of return has very low volatility; stocks in new technology companies might have high volatility, showing high returns one year and negative returns the next. Higher risk investments also have the potential for higher returns, along with the potential for losses. In developing an investment strategy, investors identify their risk tolerance and then seek to optimize returns (through asset allocation and diversification) for that level of risk. Each of the CTFs that responded to the CTIS this year has its own unique risk profile and has developed its investment strategy and target returns accordingly. The overall results of the CTFs, the range of returns (both nominal and real), the asset allocations and the patterns over time give opportunities for learning, discussion and exploration. Those CTFs that elected to participate in data sharing have access to the individual raw data of those CTFs that also elected to participate, and can also do a more detailed analysis of asset allocations and investment patterns by CTFs that they perceive as peers in terms of risk and other drivers of investment decision making.

Photo contributed by MK Hasan, Arannayk

Photo contributed by Arnaud Apffel

Table 2: Endowment Vs Sinking Funds, Nominal Returns Over Time

	2014		2013		2012	
	Mean	Median	Mean	Median	Mean	Median
Endowment	6.22%	5.69%	5.44%	4.5%	9.35%	9.54%
Sinking Funds	5.11%	5.17%	2.54%	4.44%	9.14%	7.71%

BENCHMARKS & TARGETS

The responding CTFs manage a total of 42 funds: 26 endowments, 15 sinking funds, and one reporting combined data. Of these, 28 of these funds measure performance based on a target rate of return, and 30 funds measure performance using benchmarks (note that some funds are counted twice as they use both targets and benchmarks to measure performance).

For those CTFs that established a target return to measure performance, the average nominal target was 6.93%. Twenty-three (23) funds provided us with both targets and actual return data; of these, eight funds (35%) met or exceeded their 2014 targets, and 15 (65%) underperformed their targets.

As investment conditions or spending expectations change, CTFs may adjust their target returns up or down from one year to the next. Table 3 shows reported changes in the target returns.

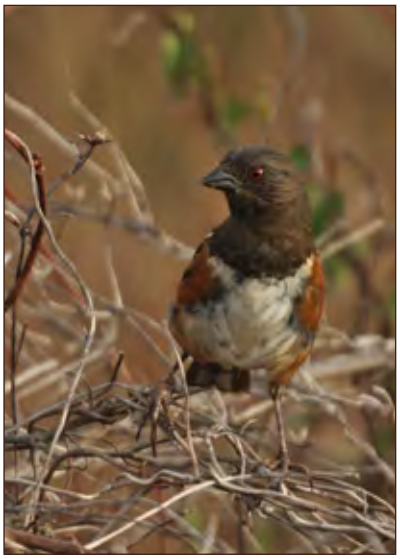


Photo contributed by Lorenzo Rosenzweig Pasquel, Fondo Mexicano para la Conservación de la Naturaleza

Table 3: Changes to Target Returns

	2013 to 2014 (n=17)	2014 to 2015 (expected) (n=16)
% of CTFs that INCREASED the target returns	23.5%	25%
% of CTFs that DECREASED the target returns	29.4%	31.3%
% of CTFs reporting NO CHANGE in target returns	47.1%	43.8%

Thirty (30) of the funds measure performance using external benchmarks, typically a publicly reported index. The benchmarks are generally selected to align with a particular segment of the portfolio; for example, the S&P 500 may be used to measure performance of US stocks, whereas the Barclays Capital US Aggregate Bond Index may be used to measure the performance of the fixed income portion of the portfolio. For portfolios invested in domestic equity markets, an index of that country's stock market is typically used.

The most commonly used general (non-domestic) benchmarks are (2014 returns in parentheses, where available):

Equity Total Return (i.e. includes dividends)

- MSCI ACWI ("All Countries World Index") in USD (4.16%)
- MSCI World in USD (despite the name this index only includes developed markets) (4.94%)
- MSCI World in Euro
- S&P 500, measuring US stocks only (13.69%)
- MSCI Emerging Markets in USD
- MSCI World Index, Excluding US

Photo contributed by Arnaud Apffel

Fixed Income

- Barclays Capital US Aggregate Bond Index (5.97%)
- Citigroup World Government Bond Index, excluding US, All Maturities (-2.67%)

Commodities

- DB Commodity Index Tracking Fund
- DJ-UBS Commodity Index (DJP) (-26.45%)

REITs

- National Association of Real Estate Investment Trusts (NAREIT) Index (23.86%)

In calendar year 2014, none of the participating CTFs reported nominal organizational returns that exceeded the S&P 500, but 15 exceeded the MSCI World. Twelve (12) CTFs reported nominal organizational returns that exceeded the Barclays Capital US Aggregate Bond Index (BCABI).

Twelve CTFs reported nominal organizational returns that exceeded a hypothetical portfolio consisting of 60% equity (measured by the MSCI World Index) and 40% fixed income (measured by the BCABI). The returns of this hypothetical "indexed" portfolio would be 5.69%.

Photo contributed by Arnaud Apffel

It is important to note that the appropriate asset allocation for a CTF or a portfolio reflects a variety of needs, including but not limited to risk, liquidity, currency, and other strategic considerations. Therefore, there is no "one size fits all" optimal allocation that will work for all organizations, or that is preferable to another allocation. It is vital to determine the asset allocation that best aligns with the CTF's needs. The hypothetical benchmark portfolios provided here are for context and illustrative purposes only; they are not a recommendation.

RETURNS BY REGION

On average, nominal organizational returns for the three regions of Africa, Latin America/Caribbean and Asia/Oceania were somewhat widely distributed. Average nominal organizational returns for Africa, Latin America/Caribbean and Asia/Oceania were 5.34%, 4.67% and 7.85%, respectively. Eastern Europe has too few data points to report separately.

When endowment and sinking funds are considered separately, there is a similar pattern to the overall organizational returns. Africa, Latin America/Caribbean and Asia/Oceania CTFs average nominal endowment fund returns were 5.95%, 5.67% and 8.81%. Sinking fund nominal returns averaged 7.85% in Asia/Oceania and 5.31% among Latin American/Caribbean funds.

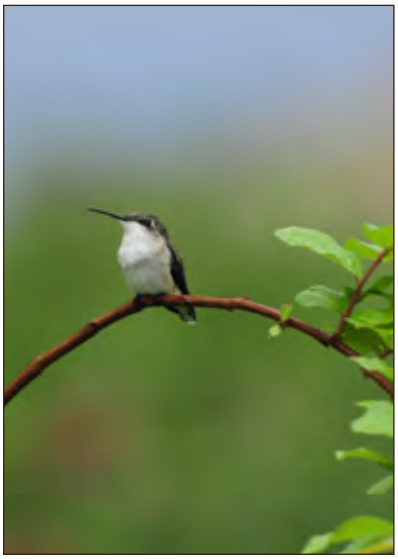


Photo contributed by Lorenzo Rosenzweig Pasquel, Fondo Mexicano para la Conservación de la Naturaleza

Table 4: Average Nominal Fund Returns by Type and Region

Region	Endowment (Average Return)	Sample Size	Sinking Fund (Average Return)	Sample Size
Africa	5.95%	6		
Asia/Oceania	8.81%	3	6.41%	2
Latin America/Caribbean	5.67%	13	4.85%	10
Overall*	6.22%	23	5.17%	13

*Overall returns and sample size include Eastern European funds which are not reported separately.

IMPACT OF INFLATION/REAL RETURNS

All CTFs, and especially those managing endowments, must factor inflation and currency risk into their investment decision-making. Inflation, referring to the increase in the prices of goods and services being purchased, can significantly affect the CTF's purchasing power in the country in which it operates. For those CTFs that invest domestically, investment returns must exceed inflation for the returns to produce real income to the CTF. Those CTFs that choose to invest offshore may find more investment opportunities and a less inflationary environment; however these CTFs must then monitor currency exchange rates (and/or hedge currency risk) to ensure their investment returns are preserved when converted to the domestic currency for spending.

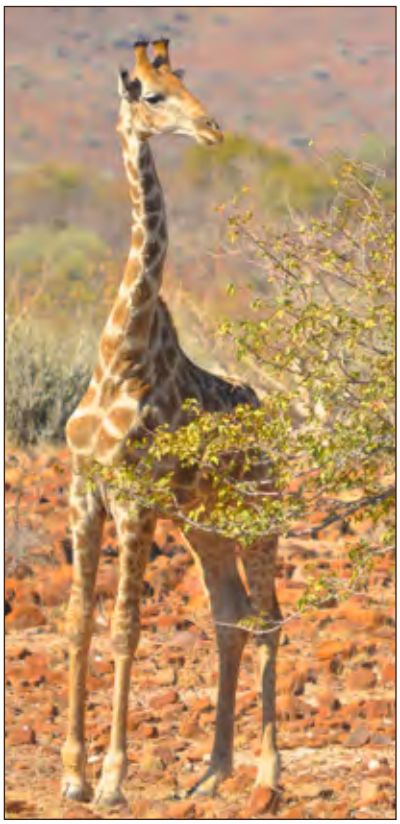


Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

For purposes of this analysis, and in an attempt to simplify a complex topic, we will consider the relevant inflation rate for each fund to be the prevailing inflation rate in the country where the fund's performance is measured. In this year's questionnaire, we asked the participating CTFs to provide information on what they used to measure inflation. To the extent possible, we used this information for our inflation analysis as well. When the information was not provided by the CTF, we compare domestic fund returns to domestic inflation, and funds invested in US or European markets to US or European inflation. This approach deliberately excludes the impact of currency exchange for offshore investments; to incorporate currency into the analysis would require too many assumptions about the timing of currency exchanges, liquidity decisions and the ability of each CTF to hedge currency risk.

Inflation rates for the reporting funds ranged from -1.0% to 7.0%, with an average of 2.62% and median of 1.2%. The nominal rate of return, adjusted for inflation, provides the real rate of return (see Glossary for formula). Four (4) of 42 funds earned negative real returns; all four of these had earned positive nominal returns. On average, incorporating inflation lowered the average returns for all reporting funds by 2.53%.

Graph 7: Comparison of Nominal and Real Fund Returns

Photo contributed by Arnaud Apffel

Notably, the gap between nominal and real returns is larger for sinking funds than for endowment funds (see Graph 7). There are several possible explanations for this – first, endowments are invested to preserve purchasing power for future generations. It is vital, then, that an investment strategy for endowments adequately incorporates the impact of inflation. Sinking funds, by contrast, are expected to diminish to zero in a set time frame as CTFs use both the principal and interest to fund conservation work. In that sense, sinking funds can benefit from a consideration of inflation but they are likely to be more concerned with preserving principal and ensuring liquidity. Second, sinking funds (perhaps for the reasons just listed) are somewhat more likely to be invested entirely in domestic fixed income instruments – as these interest rates are generally linked to domestic inflation it is harder to achieve a real return.

Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

Table 5: Average Nominal versus Real Fund Returns by Primary Currency

	Average Nominal Returns	Average Real Returns	Variance
Domestic (n=14)	7.6%	2.62%	4.98%
Euro (n=4)	6.97%	6.54%	0.43%
Mix (n=3)	4.23%	0.44%	3.79%
US (n=15)	5.28%	3.85%	1.43%
US, with others (n=4)	1.84%	0.39%	1.45%

Domestic and mixed portfolios showed the largest gap between nominal and real returns in 2014. In the case of the domestic portfolios, this is no doubt due to higher rates of inflation in the developing or emerging economies in which these CTFs are holding investments. It is worth noting, however, that among the 14 funds that are investing in a domestic currency, seven funds are held by CTFs that also have USD or global funds as well, indicating that their overall investment assets may be diversified. Among the seven funds that are held exclusively in domestic currency by CTFs that do not have other offshore investments, average nominal returns were 5.75% but average real returns were 1.69%.

Photo contributed by Lorenzo Rosenzweig Pasquel, Fondo Mexicano para la Conservación de la Naturaleza

With the 2013 survey instrument, a new question was added to better understand why CTFs choose to invest domestically versus offshore. The question provided several options, with the instruction to check all that applied. The question was asked on a fund-by-fund basis; 12 respondents provided the following answers:

Table 6: Reasons for Domestic Investment

Reason	Number responding
Legal prohibitions on converting currency for off-shore investing	2
Risk tolerance (feel more confident with domestic investments)	3
Do not have the experience/expertise/contacts to invest off-shore	0
Time horizon for investing and spending makes currency conversion impractical (sinking funds only)	2
Other	7

The seven "Other" responses fell into three general categories:

- The fund's specific profile made off-shore investing impractical (combination of currency risk, time horizon and/or spending requirements)
- The fund has an off-shore counterpart, and is therefore the domestic component of a diversification strategy
- Specified in the fund's founding documents or other governing documents

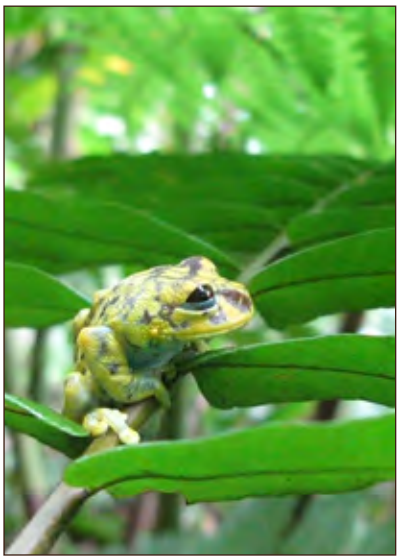


Photo contributed by Eastern Arc Mountains Conservation Endowment Fund

MULTI-YEAR RETURNS

Three and five year average nominal returns for the participating CTFs are fairly stable. Multi-year data is available for 21 funds (15 endowments, 6 sinking funds) representing 19 CTFs, although six of these funds did not provide 2014 data.

Through the year 2014, the three-year average nominal return for all funds is 6.45%, and the five-year average nominal return is 6.10%. The three- and five-year averages are calculated as a compound annual growth rate. This is, effectively, the return that smooths out interim fluctuations and shows the effective return from the beginning of 2012 to the end of 2014 (for the three-year) and from the beginning of 2010 to the end of 2014 (for the five-year). The three-year averages are somewhat higher than last year, while the five-year average nominal returns have declined slightly.

Table 7: Three and Five Year Average Nominal Fund Returns, Through 2014

	Three-Year Average Return	Five-Year Average Return
Overall Average (n=21)	6.45%	6.10%
Sinking Fund Average (n=6)	4.55%	5.52%
Endowment Average (n=15)	7.21%	6.34%

With the benefit of returns data stretching back to, in many cases, 2007, we are able to see a picture of how returns have changed over time. Graph 8 illustrates the changes in the three-year average returns, for five three-year periods ending 2009, 2010, 2011, 2012, 2013 and 2014.

Graph 8: Changes in the Average Three-Year Returns

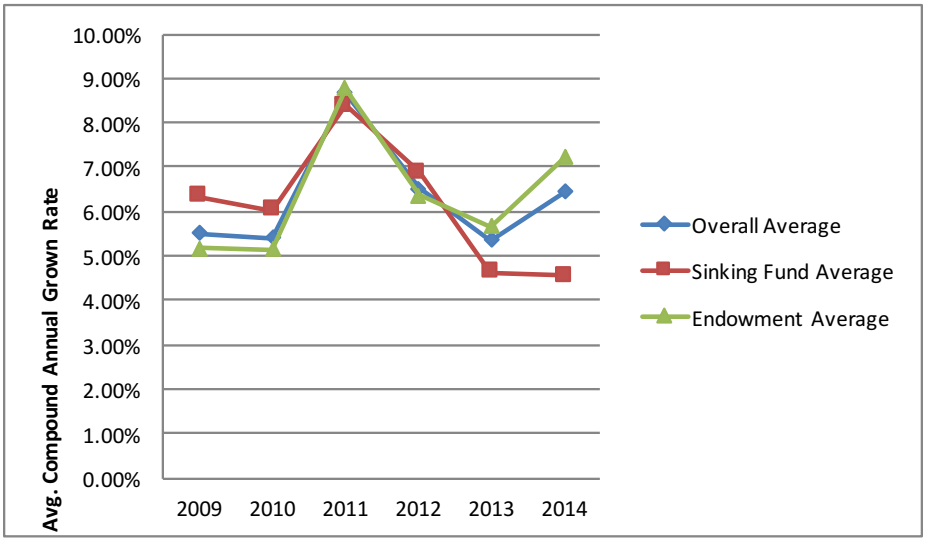


Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

Graph 9: Average Annual Nominal Returns for Multi-Year Responders, 2007-2014

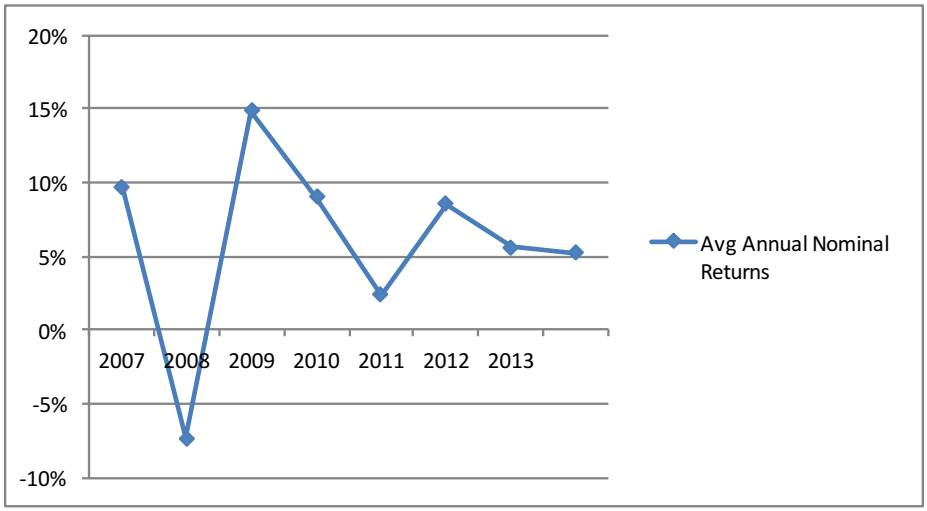


Photo contributed by Lorenzo Rosenzweig Pasquel, Fondo Mexicano para la Conservación de la Naturaleza

Graph 9 provides the annual average nominal returns for the same set of 21 funds, going back to 2007 (where data is available). Returns for these funds, from 2009 to 2014, have been relatively stable; 2009 was, on average, a particularly high year; 2011 was, by contrast, quite a bit lower, but still positive on average. This annual variation is smoothed out when looking at three and five-year average returns.

Photo contributed by C Kaiser, Seychelles Islands Foundation

Table 8: Three-Year Average Nominal Fund Returns, Over Time

Three-Year Average Returns for the Period ending in	2009	2010	2011	2012	2013	2014
Overall Average	5.46%	5.25%	8.31%	6.38%	5.36%	6.45%
Sinking Fund Average	6.35%	6.02%	8.37%	6.89%	4.62%	4.55%
Endowment Average	5.13%	4.96%	8.29%	6.18%	5.66%	7.21%

(Note: Of the 21 funds with multi-year data, 17 have data beginning in 2007, 2 have data beginning in 2008 and 2 have data beginning in 2009; 6 funds did not report financial data in 2014)

Graph 10: Changes in the Average Five-Year Returns

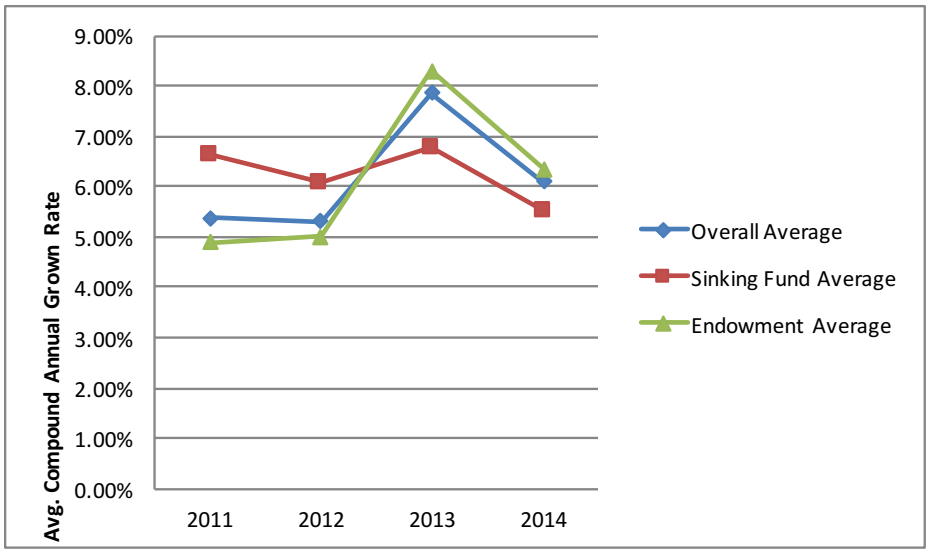


Photo contributed by Zdenka Piskulich, Costa Rica Forever Association

INVESTMENT MANAGEMENT

Photo contributed by Lorenzo Rosenzweig Pasquel, Fondo Mexicano para la Conservación de la Naturaleza

INVESTMENT STRATEGIES

In determining, and then implementing, their investment strategies, the majority (91%) of the survey respondents indicated that they have an investment policy document to guide investments. Of the others, 3% said they do not have a policy, and 6% did not answer the question.

Conservation Trust Funds must balance a variety of factors in making decisions about their investment strategy. Typically, the investment policy must take into consideration a variety of factors, including

- Annual operating expenses and project funding needs (i.e. cash flow requirements)
- Long-term capital appreciation goals
- Various donor requirements and restrictions
- Economic conditions or potential for investment in domestic markets
- Size of the fund(s) and ability to access some investment vehicles
- Access to international investment opportunities, and/or legal constraints on off-shore investing
- Relevant inflation and the ability to maintain the real value of endowment funds over time
- Taxability of investment returns, where applicable

Most of the responding CTFs listed “maintaining real value of endowment” as the first investment priority, when asked to rank investment goals. Other investment priorities included maintaining the nominal value of the endowment, interest and dividend income, and capital gains. Table 9 shows the number of CTFs that ranked each of the criteria as first, second or third priority.

Photo contributed by Shakil Nurani, Arannayk

Table 9: Ranking of Investment Priorities

Criterion	Number of CTFs Ranking First Priority*	Number of CTFs Ranking Second Priority*	Number of CTFs Ranking Third Priority*
Maintain Nominal Value of Endowment	4	9	1
Maintain Real Value of Endowment	19	5	3
Growing the Real Value of Endowment	4	7	9
Achieving a target income (interest and dividends)	6	4	9
Meet specific benchmarks	2	1	1
Achieving social or environmental impact with investments	4	1	1
Avoiding investment in specific companies or investments (negative screens)	2	0	2

* 32 CTFs responded to this question. Some CTFs ranked multiple criteria as first priority; as such, responses may exceed 32.

Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

In addition, 91% of the responding CTFs indicated that they have a dedicated investment or finance committee focused on investment policy and oversight. The remaining CTFs indicated they do not have a formal committee or did not answer the question. Of those that have an Investment Committee and provided details (32 CTFs), the average size of the committee is four members.

ASSET ALLOCATION AND DIVERSIFICATION

Managing risk in investments is generally achieved through diversification of investments. Most fundamentally, diversification means holding multiple investments rather than just one. However, more broadly there are multiple dimensions on which to diversify: asset type (e.g. equity versus fixed income versus alternatives like real estate or commodities); asset sub-type (industry, size, growth vs value); currency; location of investment; time horizon; and the underlying perceived volatility of the assets themselves.

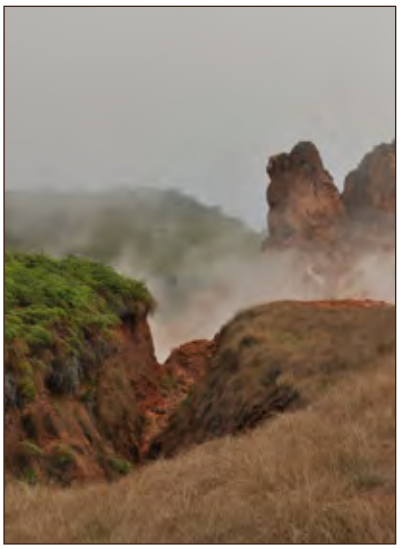


Photo contributed by Lorenzo Rosenzweig Pasquel, Fondo Mexicano para la Conservación de la Naturaleza

In this report, we largely address three major areas of diversification – what type of assets, what currency are they held in, and where do they originate. In 2014, we changed the structure of the questionnaire to get at the distinction between what currency the investments were held in, and where the investments originated.

Overall, the responding CTFs tended to weight their investments toward fixed income. Endowment funds relied on a more balanced portfolio, while sinking funds tended to concentrate in fixed income. The endowment funds also tended to have higher cash balances than might have been expected, given the expected low rates of return for cash relative to other asset classes. It is unclear whether this results from a temporary re-balancing of the portfolio, reflects the need for liquidity, represents a reaction to market uncertainty, or serves some other investment purpose. When combined, cash plus fixed income represent nearly 65% of the overall average asset allocation, 55.3% of the average endowment allocation and 84.6% of the average sinking fund allocation.

Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

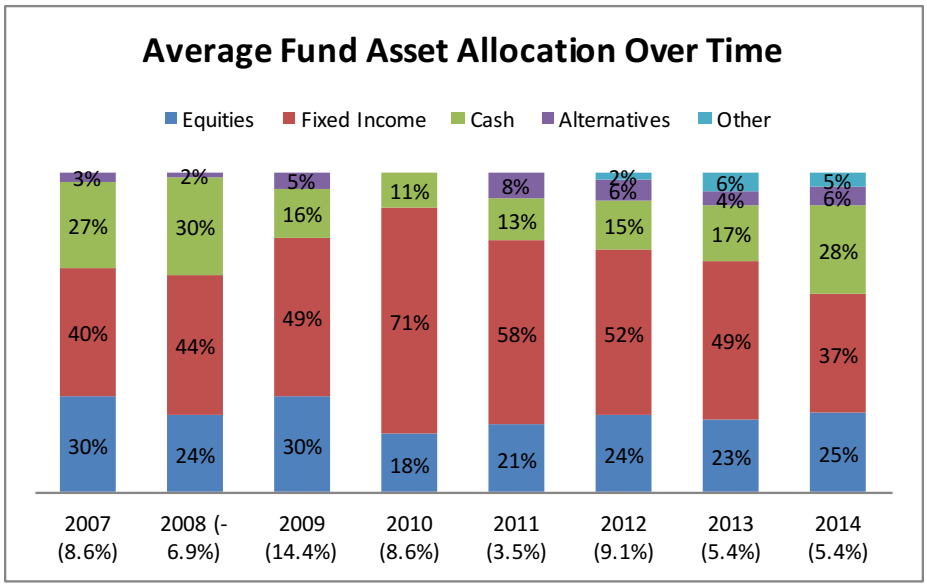
By contrast, the average asset allocation in the 2014 NACUBO study was 13% fixed income and short-term securities & cash, with the remainder in alternative strategies, equities, and other.

Table 10: Average Asset Allocation of Funds

Asset Class	Overall Average (n=41)	Endowment Average (n=25)	Sinking Fund Average (n=15)
Equities	24.76%	32.2%	9.4%
Alternatives	5.54%	5.5%	6.0%
Cash	27.61%	24.8%	34.9%
Fixed Income	37.14%	30.5%	49.7%
Other	4.90%	7.0%	0%

Over time, the asset allocations for the funds have ranged from 40 to 71% in Fixed Income and 18 to 30% in Equities, with as much as 30% of the portfolio in cash. Graph 11 shows the average fund asset allocation from 2007-2014; average nominal investment returns for the funds in each year are noted in parentheses after the year. The growth in "other" reflects several types of investments used by a fraction of the CTFs that seem to defy typical asset classifications. These include preferred stock, investments considered "distressed" or "opportunistic," and subordinated debt.

Graph 11: Average Fund Asset Allocation Over Time



In addition to diversifying on asset type, investors can also diversify geographically, i.e. where the underlying assets originate. With the 2014 CTIS questionnaire, we asked for new information – specifically, in what geographies are the CTFs investing? The data in the table below sums up where the underlying invested assets are based. In other words, for example, are African CTFs investing in Latin America? Are Latin American/Caribbean CTFs investing in Asia? Note that this question is distinct from the currency in which the investments are held, which is answered in an earlier section of the report.

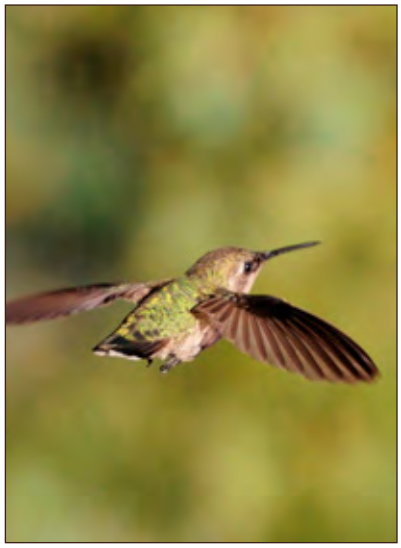


Photo contributed by Lorenzo Rosenzweig Pasquel, Fondo Mexicano para la Conservación de la Naturaleza

Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

Table 11: Location of Investments

Location of CTF*	Investments in United States	Investments in Own Country	Investments in Europe	Global Investments	Investments in Latin America/ Caribbean	Investments in Africa	Investments in Asia	Other
Africa	23.92%	39.2%	15.33%	11.04%	0.76%	1.98%	1.33%	7.04%
Asia/ Oceania	20.33%	66.67%	0%	13%	0%	0%	0%	0.9%
Latin America/ Caribbean	32.88%	51.67%	1.17%	9.9%	3.62%	0%	0.89%	0%

* Eastern Europe does not have enough responses to break out separately. Note that for each region, the total investment allocation also includes the "Investments in Own Country" allocation for that region, e.g. Africa investments would equal 41.18% (39.2% "Investments in Own Country" plus "1.98% Investments in Africa").

Photo contributed by Arnaud Apffel

INVESTMENT SERVICES

Types of Providers

In 2014 we revised our approach to this topic – rather than just asking which types of outside service providers the CTFs used, we revised the structure of the questions to better understand the types of functions that fall into investment management, whether CTFs handle these functions internally or outsource them, and, where outsourced, what types of providers are being used.

The CTFs were asked about the following investment functions:

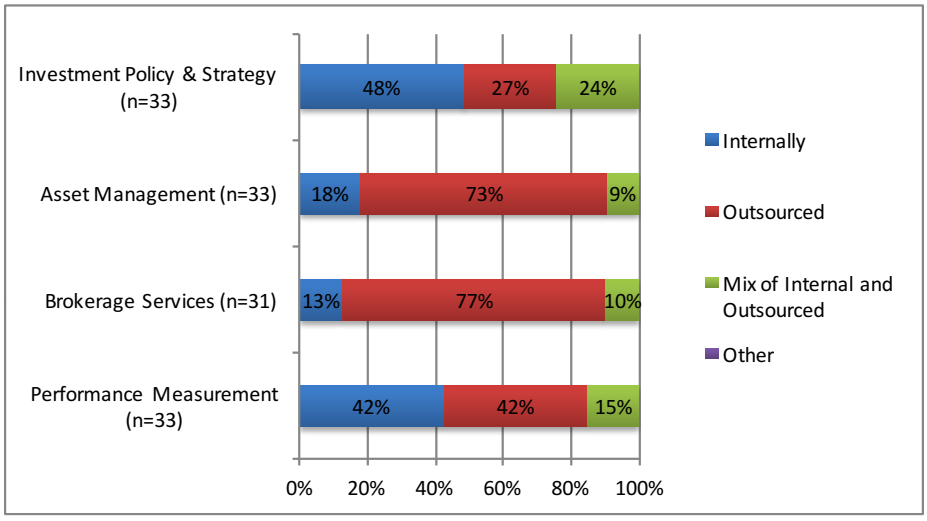
- Investment strategy and policy, asset allocation, selection of asset managers
- Asset management, i.e., making decisions about specific investment products or securities to buy or sell, and the timing of those transactions, within a specific asset class or sub-class and within the parameters of the investment guidelines
- Brokerage services, i.e., executing specific buy/sell transactions under client direction
- Custodial services provider i.e., holding assets in safekeeping and arranging settlement of any transactions (purchases, sales, dividends, foreign exchange, etc.)
- Performance attribution and measurement, cost control, risk analysis

For each of the functions except Custodial Services, the CTFs were asked if they perform the function internally (by Board, staff and/or Investment Committee), if they perform the function partially internally and partially through outsourcing, or if they outsource the function. Custodial services are by definition outsourced.

The responses are illustrated in Graph 12.

Photo contributed by Seychelles Islands Foundation

Graph 12: Staffing Models for Investment Functions



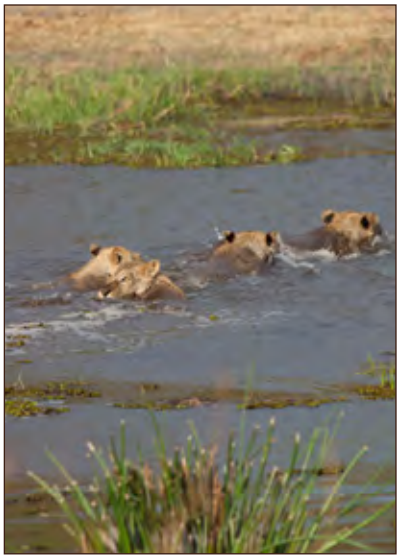
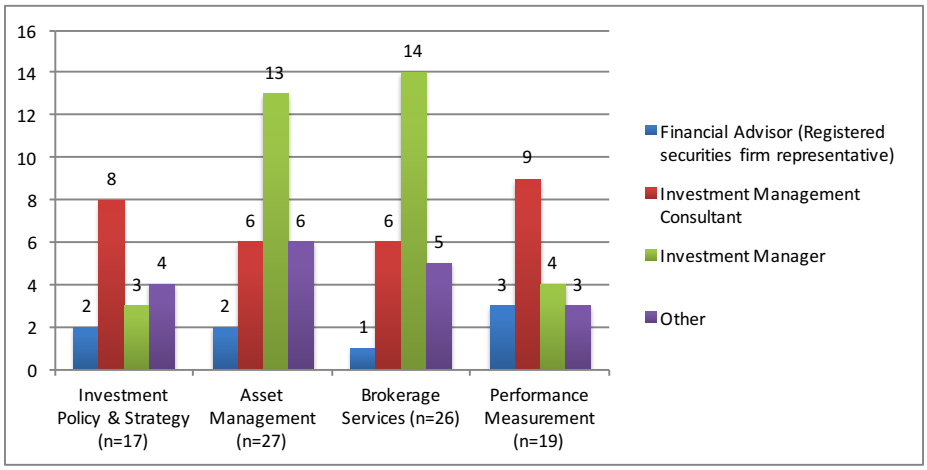


Photo contributed by Arnaud Apffel

Graph 13: Types of Investment Professionals



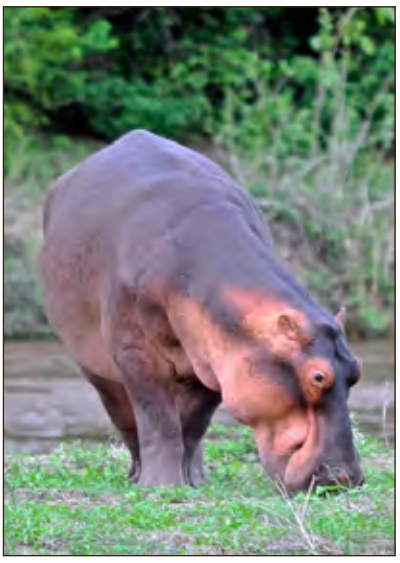


Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

Typical Fees

For those CTFs using professional advisors, the typical fees average 0.2% for domestically-invested funds, and 0.66% for US-based advisors and 0.74% for European-based advisors. Notably, the US and European-based advisors were more likely to be investment management consultants or financial advisors, where a higher fee might be expected. It is also worth noting that CTFs invested domestically tended to be invested primarily in domestic fixed income and tended to be less likely to report any fees related to the portfolio. The data reported above was provided in Part 2 of the questionnaire, one that is frequently completed by investment professionals on behalf of the CTFs. For the first time in 2014, we also asked the CTFs to explain the fee structures for their outside professionals in Part 1 of the questionnaire. Overall, the descriptions of fee structures were generally consistent between Part 1 and Part 2.

Another method of looking at fees is to calculate the cost of investment management by dividing the fees by the before-fee return[6]. This gives us a

[6] Rick Ferri, "The Heavy Toll of Investment Fees," Forbes Personal Finance (website), May 27, 2013.

sense of what percentage of the total (before fee) return is going to pay for investment services – whether CTFs are seeing good value for money in their use of investment professionals. Obviously, the number will change over time, as fee structures (the numerator) tend to be stable while returns (the denominator) fluctuate. While this year's numbers are informative, the calculations will be more valuable in subsequent years as we add more data for comparison. Similarly, for any given CTF, the cost of investment management is interesting in any given year, but a true understanding of whether their investment management services are cost-efficient would be best evaluated over time. Table 12 shows the cost of investment management for Domestic, Euro and US Dollar portfolios. For this year's participants, the cost of investment management ranges from 0.1% to 52.3%, with median and mean costs generally in the 10-15% range.

Table 12: Cost of Investment Management

	Max	Mean	Median	Min
US	52.3%	15.8%	14.6%	3.4%
Euro	19.0%	11.1%	11.2%	5.6%
Domestic	36.5%	10.6%	6.1%	0.1%

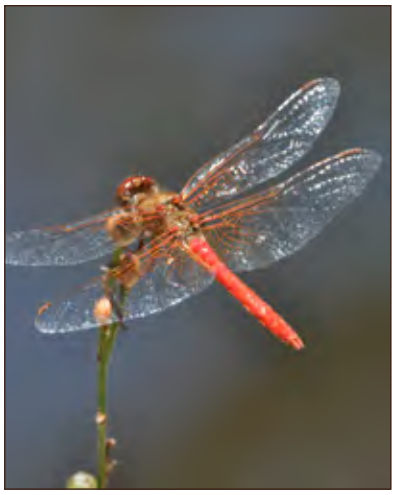


Photo contributed by Lorenzo Rosenzweig Pasquel, Fondo Mexicano para la Conservación de la Naturaleza

A question which bears further examination is a better understanding of the cost of internal investment management. While we compare fees for outside professionals, we have not tried to analyze the cost of performing these investment functions internally or of comparing these internal costs to the costs of outside providers. Consequently, it has not been possible to do a true comparison of whether those using outside professionals typically see higher after-fee returns than those performing investment functions internally.

SPENDING RATES

As part of a comprehensive investment strategy and to enable the organization to plan for expenditures and project budgets, most CTFs develop a spending policy or spending rule to define a predictable income stream over a multi-year period. Rather than adjusting the annual budget to market fluctuations, many CTFs determine an expected rate of expenditure from the investment returns of the funds.

In developing a spending rule or spending policy, the CTF must consider its annual expenses for operating costs and grants (i.e. the operating budget) as well as its expectations for growing or maintaining the capital base of the fund, to increase capitalization or to maintain purchasing power over time relative to inflation. While some CTFs consider the spending rule on an annual basis, many look at a three- or five-year average to smooth any variability in investment returns.

Examples of actual spending rules reported by the responding CTFs include:

- 0% (CTFs seeking to build the capital base and therefore reinvesting all investment returns)
- 3-7% of the fund's principal
- Income from fixed income investments

Among those reporting a time horizon for spending, seven CTFs use a five-year time horizon, six use a three-year time horizon, thirteen use an annual time horizon, and seven use other methods.

Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

RESOURCE MOBILIZATION

While Conservation Trust Funds frequently start out supporting protected areas, often a broader goal is that the organization will ultimately serve as a catalyst to attract other resources to support the conservation goals. As the CTFs have established successful public-private partnerships and demonstrated financial management capability, they have often become effective fundraisers for added conservation funding.

Twenty-two (22) of the responding CTFs reported that they raised funds from sources other than investment returns in 2014. Of these, the most common sources of revenue were multilateral organizations, national governments, the private sector, international NGOs and bilateral organizations.

Of these, ten used all or a portion of the newly raised funds to add to their capital base (either as endowments or sinking funds). As well, eleven CTFs reported adding investment returns to their capital base.

DONOR RESTRICTIONS & OTHER CONSTRAINTS

It is not uncommon for donors or the Board or investment committee to establish investment restrictions or prohibitions as part of the investment policy. Typically these constraints reflect concerns about investment risk, and are intended to prevent the CTFs from engaging in unduly risky investments. In other cases, CTFs may choose to exclude certain types of investments or industries because they do not meet social or environmental screening criteria.

Of the 32 CTFs that answered the question, 15 reported no donor-imposed restrictions. Of the slightly more than half that indicated the existence of donor restrictions, they listed following as representative examples:

- No offshore investment
- Safety of funds and high (or specific) returns on investments
- Professional investment manager
- Global diversification
- Specific geographies, markets or currencies
- Specific asset allocation
- Specific risk restrictions, or specifications of acceptable risk ratings on investment vehicles
- Specific approved investment professionals
- Must not invest in industries/markets that threaten the environment; other ethical investing criteria
- Conflicts of interest involving businesses owned or controlled by Board members
- Prohibitions on specific types of investments

Some donor constraints are in effect during the initial formation of the fund, but lapse as the CTF graduates beyond the initial supervisory period by the donors.

In addition to donor-imposed restrictions, of 32 CTFs that answered the question, 78% indicated that their investment policies specifically prohibited

Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

Photo contributed by Eastern Arc Mountains Conservation

certain types of investments. The following examples are representative of some excluded investments:

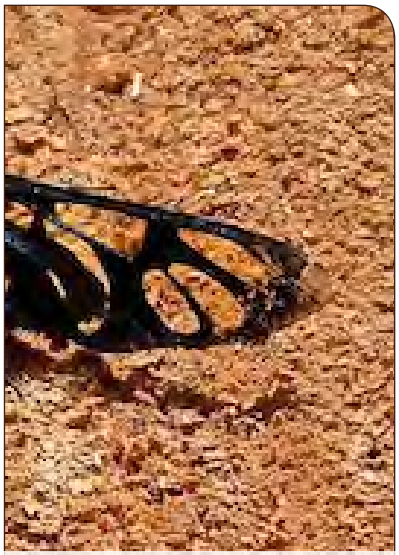
- Industries or investments that damage the environment; may be as specific as addressing whether companies have adequate environmental remediation or emission treatment practices
- Individual (non-managed) commodities and futures contracts
- Private placements
- Options
- Private Non registered Limited partnerships
- Venture capital investments
- Derivatives
- Derivatives which increase portfolio risk
- Derivatives but hedging is permitted
- Short sales and margin investing
- Private investments
- Securities where the issuer has filed for bankruptcy
- Use of derivatives for speculative purposes
- Precious metals
- Commodities
- Equipment leasing
- Currency speculation other than normal hedging of a larger portfolio
- Mutual funds with an investment philosophy of market timing or chart reading
- Emerging markets
- Hedge funds
- Any investments considered speculative by an experienced investor

Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

Additionally, some investment policies specify

- Minimum bond ratings and allowable maturities
- Allowable currencies and/or number of currencies

Photo contributed by P Woods, Seychelles Islands Foundation



CONCLUSIONS

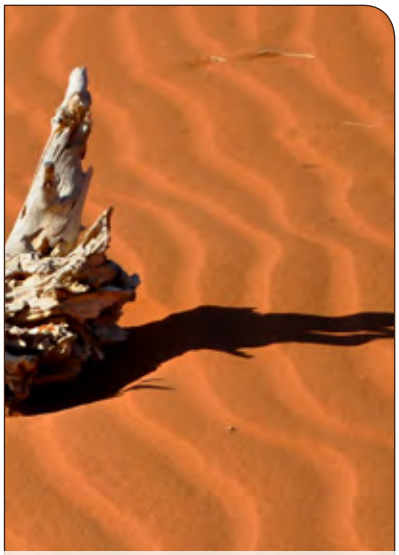
Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

In general, the Conservation Trust Funds continue to deliver solid investment returns. While 2014 marks the second year of a year-over-year decline of returns, the three- and five-year average nominal returns remain relatively healthy, at 6.45% and 6.1%, respectively.

However, we also note that only 35% of the CTFs made or exceeded their investment target returns for 2014, down from 57% making or exceeding their targets in 2013. This raises a few questions. Is it just an "off" year? Are the targets too high, and therefore expectations need to be lowered? Or are the targets valid but the asset allocations not appropriate to achieve those targets? For the most part, these are questions that must be addressed by investment committees, and those that advise them.

In order to offer some analysis as input to discussions, we endeavored to see what could be learned from top performing CTFs over the past three years. In order to remove the effect of inflation which can cause a great deal of variability, we looked at real returns over a multi-year period to identify some trends. We looked at the ten highest real returns for each of 2012, 2013 and 2014 to identify common characteristics. Among these 30 data points, we determined that the average real return was 9.58%. The average asset allocation to equities of these 30 funds was 40% equities, 40% fixed income, 11% cash and about 6% in alternatives ("other," making up the difference, was highly variable among funds). Six funds appeared in this list for multiple years. The average real returns and average asset allocation for just those six funds was identical to that of the full group. While each CTF must determine an asset allocation that makes the most sense for its objectives, we find it illuminating that the CTFs with consistently strong performance on a real basis (that is to say, removing the effect of inflation) are those with a equal weighting between equity and fixed income, a relatively low exposure to cash, and at least a modest use of alternatives.

Given this analysis, we remain concerned, that high levels of exposure to fixed income and cash, to the exclusion of equity, may be making it difficult if not impossible for some CTFs to meet their target returns, and that they are giving up potential upside opportunity and the opportunity to generate even greater returns that would produce additional funds to fuel conservation activities. We hope that asset allocation will continue to be a topic of discussion and a learning opportunity in the coming year.



GLOSSARY OF TERMS

Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

Conservation Trust Fund (CTF) -- CTFs are private, legally independent institutions that provide sustainable grant funding for biodiversity conservation. They often finance part of the long-term management costs of a country's protected area (PA) system as well as conservation and sustainable development initiatives outside PAs. CTFs raise and invest funds to make grants to non-governmental organizations (NGOs), community based-organizations (CBOs) and governmental agencies (such as national protected areas agencies). CTFs are financing institutions rather than institutions that implement biodiversity conservation. Within one CTF there may be one or more than one *fund*.

Financial Advisor -- A Financial Advisor is a licensed sales agent or broker with a securities firm

Fund – A sum of money that can only be used for specific purposes, typically for conservation objectives. A fund may have a governing body separate from, but acting in concert with, the governing body of the CTF which houses the fund. One CTF might be responsible for one or multiple funds. Each fund may have its own investment strategy, or several funds may be invested under the same strategy.

> **Endowment fund** – a sum of money that is intended to exist in perpetuity or preserve its capital over a long-term timeframe; an endowment's capital is invested with a long-term horizon and normally only the resulting investment income is spent, in order to finance particular grants and activities.
>
> **Sinking fund** – a pool of monies that will spend down its capital within a designated period of time (e.g. 10, 20, 30 years). The entire principal and investment income is disbursed over a fairly long period (typically ten to 20 years) until it is completely spent and thus sinks to zero.

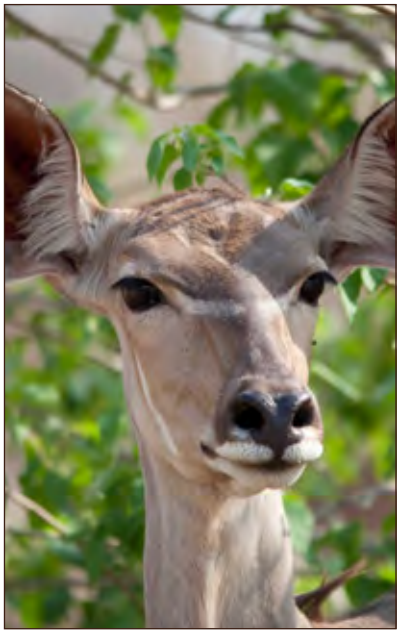


Photo contributed by Arnaud Apffel

Investment Management Consultant – A fee-based advisor operating under a non-discretionary arrangement who can provide guidance on portfolio theory, asset allocation, manager search and selection, investment policy and performance measurement. The role of the Investment Management Consultant is to provide independent advice, and the consultant's primary responsibility is to his/her client. Investment Management Consultants can help to review the performance of Investment Managers relative to the investment goals of the client, and may give the client advice on which investment managers to hire and fire.

Photo contributed by Arnaud Apffel

Investment Manager – Specialists in managing a portfolio or investments in a specific type of asset, such as medium quality corporate bonds; large-cap value equities, or emerging market governments' debt. Mutual fund managers, portfolio managers and hedge fund managers are examples of this. Investment Managers act with their own *discretion* to buy and sell investments or hire other asset managers within the parameters specified by the investment guidelines.

Nominal Returns – The face value or reported return; this is typically the percentage change in the value of a portfolio or asset over a specific time period. For purposes of the CTIS, reported nominal returns are net of fees.

Real Returns – Nominal returns, adjusted for the effects of inflation. Real returns are calculated with the formula (1+%nominal return) ÷ (1+%inflation), minus 1.

Photo contributed by Zdenka Piskulich, Costa Rica Forever Association

Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

LIST OF PARTICIPATING CTFS

Africa

Country	Name	Contact Name	Email	Website
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Tanzania	Eastern Arc Mountains Conservation Endowment Fund (EAMCEF)	Francis B.N. Sabuni	eamcef@easternarc.or.tz	www.easternarc.or.tz
Tanzania	Tanzania Forest Fund	Tuli Salum Msuya	info@forestfund.go.tz	www.forestfund.go.tz
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Asia/Oceania

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Indonesia	Yayasan Keanekaragaman Hayati Indonesia (Indonesian Biodiversity Foundation)	M.S. Sembiring	sembiring@kehati.or.id	www.kehati.or.id
Papua New Guinea	Tree Kangaroo Conservation Program	Lisa Dabek	Lisa.Dabek@zoo.org	http://www.zoo.org/treekangaroo
Philippines	Philippines Tropical Forest Conservation Trust	Jose Andres Canivel	admin@ptfcf.org	www.ptfcf.org

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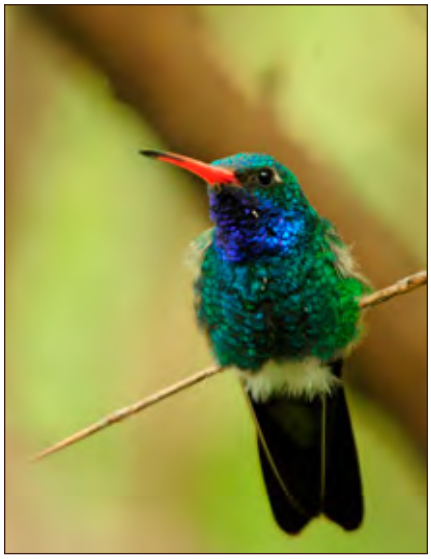

Photo contributed by Lorenzo Rosenzweig Pasquel, Fondo Mexicano para la Conservación de la Naturaleza

Photo contributed by Carl Bruessow, Malawi Mountain Conservation Trust

Foto de la portada cortesía de Carl Bruessow, Malawi Mountain Conservation Trust

Latin America/Caribbean

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Bolivia	Fundación para el Desarrollo del Sistema Nacional de Áreas Protegidas (FUNDESNAP)	Sergio Martín Eguino Bustillos	seguino@fundesnap.org	www.fundesnap.org
Bolivia	Fundación para la Conservación del Bosque Chiquitano	Roberto Vides		www.fcbc.org.bo
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Peru	Fondo de Las Américas (Fondam)	Juan Armando Gil Ruiz	fondam@fondoamericas.org.pe	www.fondoamericas.org.pe
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Latin America/Caribbean (continued)

	Salvador (FIAES)	Machuca		
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Paraguay	Fondo de Conservación de Bosques Tropicales	Edmilce Mabel Ugarte Acosta	info@fondodeconservaciondebosques.org.py	www.fondodeconservaciondebosques.org.py
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