



CONSERVATION TRUST INVESTMENT SURVEY

FOR CALENDAR YEAR 2013

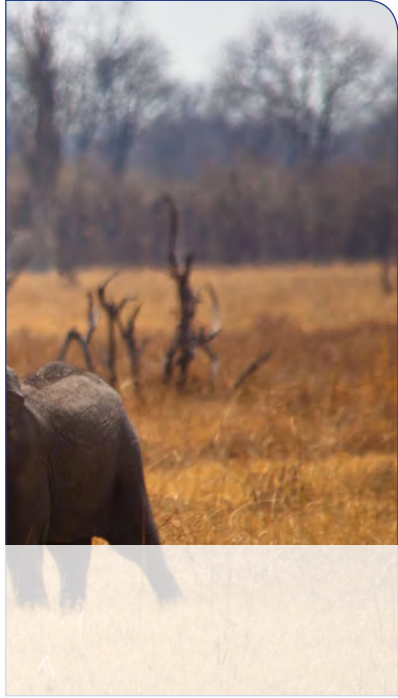


Photo contributed by Arnaud Appfel

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).



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Acacia Partners



TABLE OF CONTENTS

ACKNOWLEDGEMENTS	1
FOREWORD	2
EXECUTIVE SUMMARY	6
INTRODUCTION	9
Background	
Objectives	10
METHODOLOGY	11
Survey Format, Origination	
Data Collection	
Data Inclusion	
Confidentiality	12
Fiscal Year	
Statistical Variants	
Accuracy	
Average Returns	13
PARTICIPATING FUNDS	14
Endowment and Sinking Funds	15
Area and Age of Participating Funds	16
Currency	17
RESULTS AND ANALYSIS	18
Overall Organizational Rates of Return (Nominal)	
Fund Investment Performance	19
Benchmarks & Targets	20
Returns by Region	21
Impact of Inflation/Real Returns	22
Multi-year Returns	24
INVESTMENT MANAGEMENT	27
Investment strategies	
Asset Allocation	28
Investment Services	29
Spending Rates	30
Resource Mobilization	31
Donor Restrictions & Other Constraints	
CONCLUSIONS	33
GLOSSARY OF TERMS	34
LIST OF PARTICIPATING CTFS	36



ACKNOWLEDGEMENTS

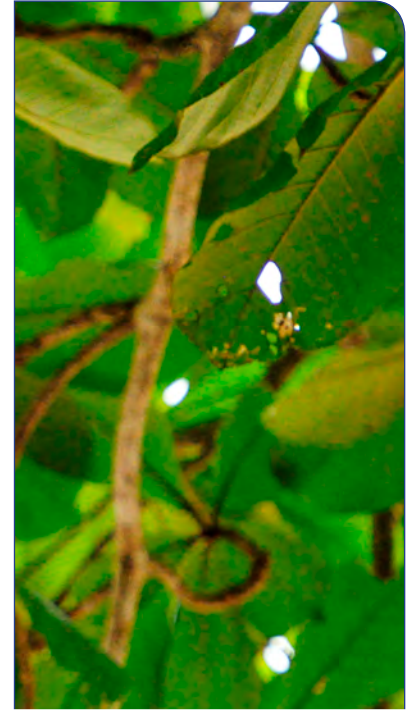


Photo contributed by Lorenzo Rosenzweig Pasquel, Fondo Mexicano para la Conservación de la Naturaleza

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 conservation. The Latin American and Caribbean Network of Environmental Funds (RedLAC) and the Consortium of African Funds for the Environment (CAFÉ) are critical project partners.

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, Karine Barcelos, Carl Bruessow, Sylvie Goyet, Scott Lampman, Kathy Mikitin, Ravaka Ranaivoson, Lorenzo Rosenzweig, Ann Marie Steffa, and Juan Pablo Vallejo. In addition, Scott O’Connell of Acacia Partners, Jorge Marmolejo of Franklin Templeton Servicios de Asesoría Mexico and Jason Puracal provided critical assistance in preparing the report.

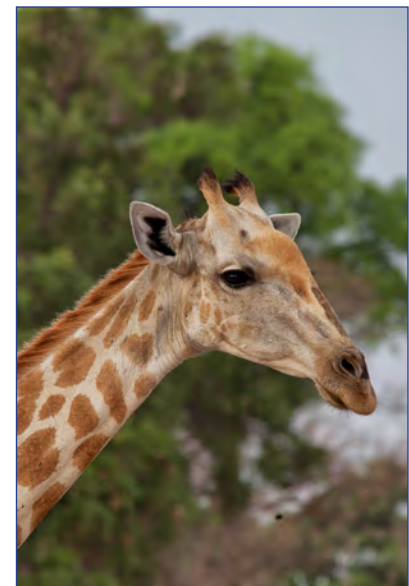


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FOREWORD

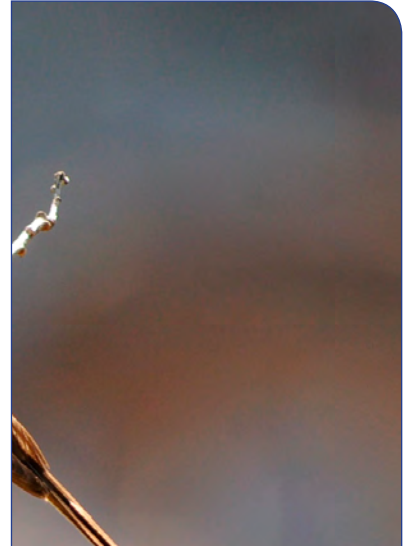


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“Risk control is the best route to loss avoidance. Risk avoidance, on the other hand, is likely to lead to return avoidance as well.” – investor *Howard Marks*

Dear Fund Manager,

We are proud to play a part in publishing this seventh edition of the Conservation Trust Investment Survey.

While managers of conservation trust funds face many challenges it’s unlikely one of them is having too much money. Most trusts wish they had far more money for their many urgent conservation needs that aren’t being met.

For most trusts, it is a real challenge to both fund current work while trying to accumulate sufficient assets to ensure your work continues for generations to come, and hopefully to expand its scope as well.

As we have tried to prevent with our letter in each of these annual reviews, most trusts have spent the last few years being excessively concerned about stock market volatility. Like generals fighting the last war, investors tend to base their decisions on the recent past. After living through the 2008 financial crisis, investors piled into cash and bonds while the improved valuations and future returns available in stocks were largely ignored.

Most trusts have been overly focused on protecting their immediate funding needs for the next few years, to the exclusion of their dual mission of protecting and expanding their spending over much longer periods of time. This natural fear has led them to a portfolio that is too conservative for these long-term stewards of irreplaceable natural wonders.



Photo contributed by Fundación Sur Futuro, Dominican Republic

As a result of this reflexive thinking, the average conservation endowment finished 2013 with only 28% in equities. This has been short-sighted at best and based upon long experience at foundations elsewhere, can be irresponsible at worst. Large allocations to cash and bonds lower portfolio returns and raise the risk of funding shortfalls as the years pass. Unfortunately, inflation erodes the purchasing power of money, which combined with growing demand for conservation work means that the value of your portfolio must grow over time. Therefore, endowment managers must devote a significant portion of their portfolio to well-chosen stocks.

Conservation trusts suffered greatly by being underinvested in equities in 2013. For a \$10 million endowment, a 60% weighting in stocks at the MSCI World Index's average return of 27% in 2013 would have increased total assets by \$1.6 million. In contrast, the average conservation endowment, with only 28% in equities, increased by less than half that amount, or \$750,000.

Then, because of compounding, the true cost of an underinvested trust is more than the missing \$850,000, but the future returns those assets could produce. Even a 5% return on equity shares would generate an additional \$500,000 over the next decade, bringing the foregone appreciation to \$1.35 million. Warren Buffett once complained about his wife spending \$15,000 on their house by saying, "Do you know how much that is if you compound it over 20 years?"

All this said, with stocks having soared since early 2009, we would not recommend that all conservation trusts rush back into stocks in one fell swoop. With shares having recovered strongly since 2009, valuations are not cheap and are in fact expensive on some metrics. As a result, returns are likely to be far lower in the next few years.

Stock investing is not for the faint of heart and investment decisions driven by both fear and greed typically end badly. History is a better guide than emotion to asset allocation, and history argues in favor of buying increasing amounts of equities during times of weakness, owning significant amounts of them over time, and raising cash for spending after periods of high returns.

Developing a plan now to increase your allocation to stocks over the next few years or in preparation for the next significant market decline would be time well spent. Creating a plan now and a strategy to implement it is also likely to increase your trust's commitment to sticking with stocks for the long term.

According to Professor Jeremy Siegel at Wharton, if you invested \$1 in stocks in 1802 you'd have \$704,997 (after adjusting for inflation) in 2012. If you invested \$1 in bonds you'd have \$1,778.

As the chart below shows, in 96% of twenty-year periods since 1872, stocks have outperformed bonds. Since 1872, stocks have outperformed bonds in 61% of one-year periods, 69% of five-year periods, 78% of ten-year periods, 96% of twenty-year periods, and 99% of thirty-year periods.

1871-2012	% of time that stocks outperform bonds
1 year	61.3%
2 years	64.1%
3 years	68.7%
5 years	69.0%
10 years	78.2%
20 years	95.8%
30 years	99.3%

Professor Siegel's research also demonstrates that in periods of longer than 10 years, the worst performance for stocks has actually been better than the worst performance for bonds. In other words, over long periods of time stocks provide higher returns and less risk than bonds. Isn't the goal of most conservation trust funds to protect earth's great natural treasures forever? If so, they must consider owning more stocks and fewer bonds over time.

It is appropriate to have cash and short term bonds to cover distributions for perhaps as long as five years. With an annual withdrawal of 5%, having 15% to 25% in cash and shorter term bonds is a reasonable allocation. Three to five years of distributions in safe investments provides comfort to hold more volatile but higher returning stocks. When a bear market hits, even one lasting several years, you won't be forced to sell when stocks are down to meet your annual payouts.

As highly regarded value investor Howard Marks recently wrote: "A downward fluctuation doesn't present a big problem if the investor is able to hold on. A permanent loss occurs when an otherwise temporary dip is locked in when the investors sells during a downswing whether because of a loss of conviction, financial exigency, or emotional pressure. We can ride out volatility, but we never get a chance to undo a permanent loss."

The rest of the portfolio should be invested for the long term with at least 50% in equities and preferably more. A simple allocation of 60% in equities and 40% in bonds could have generated a return of 15.6% in 2013 vs. the mean return of 5.4% for the average conservation trust endowment portfolio. For a typical endowment fund with assets of \$13 million, this would have meant an additional \$1.3 million to your trust above the results actually achieved, in just one year!

If your conservation trust has a low allocation to equities, you could make a plan to increase its 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 a plan. Again, given the strong performance of stocks in recent years, it is not advisable go from 30% stocks to 60% stocks immediately. Gradually adding to your holdings makes sense.

Note that declines in stock prices cannot be predicted or avoided. At the same time, even markets that have gone up nicely don't necessarily have to decline. Stocks can just flatten out for extended periods of time while earnings "catch up" to prices, and may then resume their ascent.

"If you think the market's "too high" wait 'til you see it 20 years from now." – Nick Murray

Trying to jump in and out of stocks, i.e. market timing, is a fool's game. According to the Hulbert Financial Digest, the 81 market timing advisors it tracks have suffered an average annual loss of 0.8% since the market top in March 2000. A simple buy-and-hold strategy has produced an annualized gain of 4.2% including reinvested dividends.

Buying on a regular, pre-determined schedule, regardless of what the stock market is doing, is called dollar-cost averaging. As it turns out, when stock prices are low, you can buy more shares for your 5% \$500,000 allocation, and when share prices are high, fewer shares are bought. If the market goes down, you keep buying more and more shares at lower and lower prices, reducing your average cost. When the market rebounds, as it always does given time, economic growth, and inflation, one reaps the rewards.

Recently, Ben Carlson demonstrated the advantages of dollar-cost averaging. Carlson examined the results of two hypothetical investors with radically different strategies. Each saved an equal amount monthly. The first invests only when the market is down 20% and at a new 52-week low. Otherwise he holds on and does not sell. The second investor dollar cost averages into the market by investing his savings every month.

The first investor is in essence a market timer, buying only when the market has dropped significantly. This investor would have achieved an annual return of 10.4% in a world index fund over the last 43 years. The investor on auto-pilot, who ignores the market and buys monthly, achieves a return of 9.4%. If both investors had invested only in US stocks, the dollar cost averaging strategy actually earned a higher return, 9.6% vs. 9.5%.

At first blush an investor buying only after market declines would seem to have a major edge. However, much of his savings sits in cash for extended periods waiting for a market decline. The second investor, adding to his stock holdings, has more of his assets invested in the market and compounds those dollars for a much longer time. In addition, his dollar-cost averaging is a form of de facto market timing, since his dollars buy him more shares when prices are lower.

Given human nature, the first investor is unlikely to execute his strategy. Few investors have the fortitude to buy when the market is down sharply and media stories about a coming crash are rampant. Likewise, will this investor really keep his savings in cash for years between major market declines while watching other investors regularly reap gains while stocks appreciate year after year without a 20% drop?

The beauty of dollar-cost averaging is that it is simple to implement and reliable. It requires no market expertise, no outlook on interest rates, inflation, or on conflict in Iraq or the Ukraine. Regularly adding to your stock holdings irrespective of the market is a system you can easily adhere to. Carlson concludes, "Short-term moves in and out of the market don't matter nearly as much if you have a long-time horizon. Thinking long-term increases your probability for success in the stock market while the day-to-day noise gets drowned out by discipline and compound interest."

To benefit from stocks you must own stocks in large quantities. There are always reasons to be pessimistic about the market; yet pessimism blinds investors to the wealth creating potential of equities. But in 2013, stocks enjoyed sizable increases—the very type of returns trusts need to protect their threatened jewels of nature.

Our best advice is to hold enough cash and short term bonds to fund operations for the next three to five years, put as much of the rest in stocks as possible on a planned schedule, make sure you are investing with competent people, and ignore market swings.

Finally, note that there are risks to investing in bonds, just as there are in stocks. Since a bond's payments are fixed, the value of existing bonds decline when interest rates increase. When interest rates decline, bond values increase. Over the last 30 years interest rates have fallen dramatically across most of the globe with bond owners enjoying both interest income and gains from increasing bond values. With interest rates in the developed world approaching zero, it is now mathematically impossible for this once-in-a-generation benefit of falling interest rates to continue occurring.

We look forward to your continued success.

Sincerely,
Gregory Alexander
Acacia Partners



EXECUTIVE SUMMARY



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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 through Africa, Asia, Eastern Europe, Oceania, Latin America and the Caribbean. The Conservation Trust Funds described in this study manage endowment funds, sinking funds, or both. 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.

2013 was marked by highly divergent returns in different asset classes and regions, reinforcing the desirability of diversification to manage risk. The stock markets generally delivered high returns -- the S&P 500 total return performance was 32.4% in 2013, compared to 16% in 2012. The MSCI World Index, a measure of developed markets equity total return, which returned 16.54% in 2012, returned 27.37% in 2013. Notably, though, emerging markets experienced a challenging year; returns in 2013, measured by the MSCI Emerging Markets Index, were

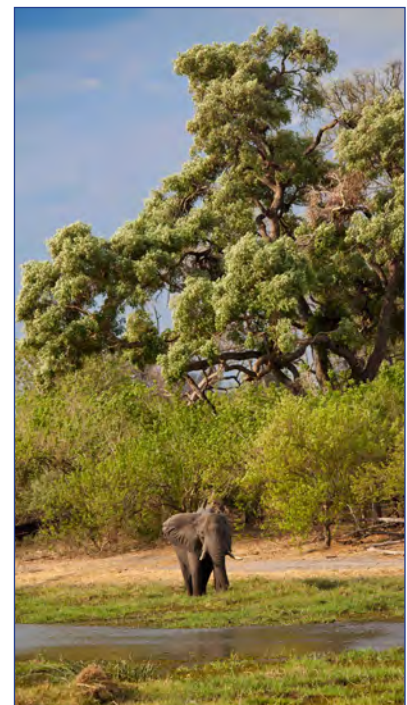
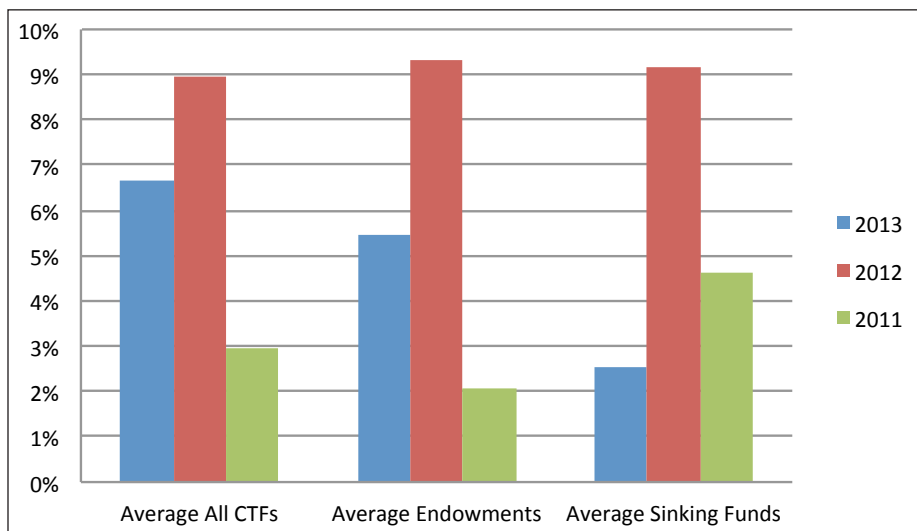


Photo contributed by Arnaud Apffel

-2.3%, versus 18.6% in 2012. Fixed income/bond returns continued a decline begun in 2011, returning a negative return in 2013 (-2.02%), versus 8.39% in 2011 and 4.21% in 2012, as measured by the Barclays Capital Aggregate Bond Index.

Overall returns for the Conservation Trust Funds participating in this study are somewhat lower this year than last year, and may reflect the CTFs' high exposure to fixed income, an asset class which performed poorly in 2013. On average, the CTFs reported nominal organizational returns¹ of 6.65%, down from an average of 8.94% in 2012. Endowment funds returned, on average, 5.44% in 2013, versus 9.35% in 2012. And sinking funds returned, on average, 2.54% in 2013, versus 8.49% in 2012. When inflation is considered, the average endowment real return is 2.82% and the average sinking fund real return is -0.51%.

Graph 1: Average Nominal Annual Returns, 2011-2013



On a historical basis, three-year average nominal returns for the period ending in 2013 were 5.36%, and the five-year average returns were 7.85%.

Forty-three (43) CTFs participated in the study this year, including nine CTFs participating for the first time. The participating CTFs represent conservation efforts in 40 countries, on six continents, and range from small endowments protecting a single species, to large institutions funding conservation efforts, supporting protected areas and conserving biodiversity throughout an entire country.

The 2013 CTIS study continues the comparative analysis by region. In 2013, 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. Such analysis is possible due to the strong participation rates in each of these regions.

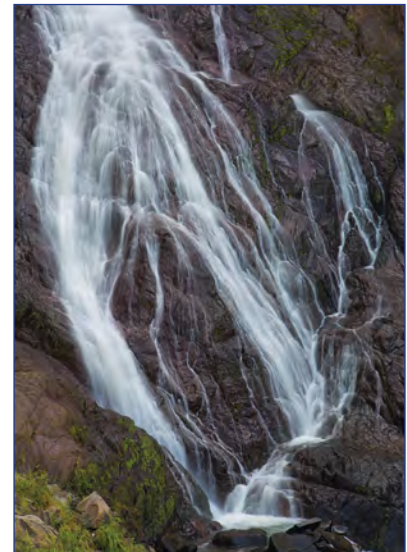


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¹ Organizational returns represent the overall average returns of a CTF that may manage and invest both multiple endowments and/or sinking funds. For CTFs that manage multiple funds, the organizational return is the average of all returns. For those 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.

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. Building on the online hub of the CTIS webpage at the Conservation Finance Alliance website and this annual report as a foundation, we will offer supplemental analyses and articles of interest, along with webinars and other investment management resources, at the network Assemblies and through other vehicles, to continue to serve the conservation finance community.



Photo contributed by Suzana Irmawati, KEHATI, Indonesia



INTRODUCTION

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 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.

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 effective mechanisms to

- Manage and disburse funds to support a variety of conservation activities;

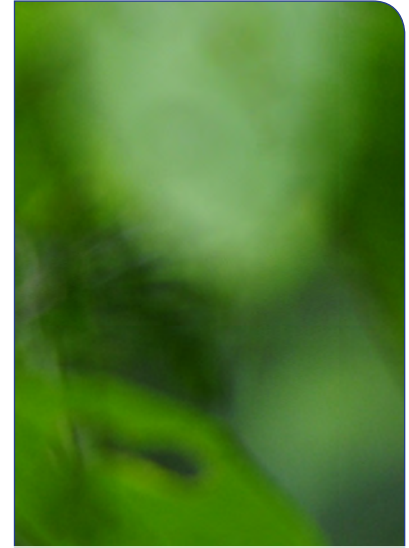


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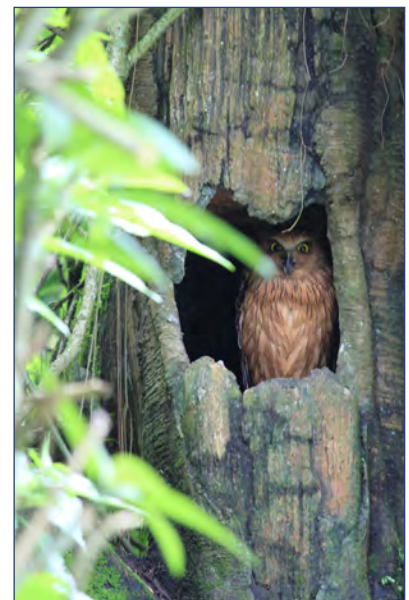


Photo contributed by Suzana Irmawati, KEHATI, Indonesia

- 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; and
- Initiate long-term programs that provide sustainable payments for improved land management in support of biodiversity conservation.

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, and 37 respondents elected to do so in 2013. 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 Brian McFarland

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

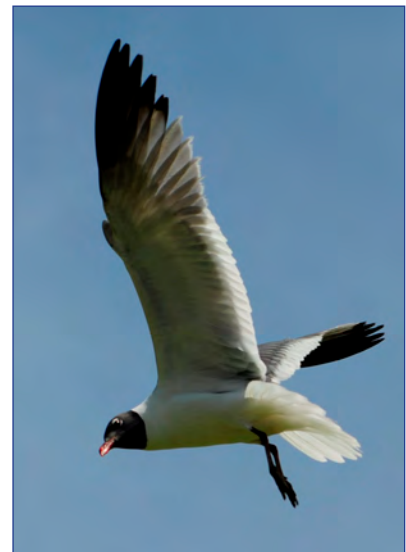


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METHODOLOGY

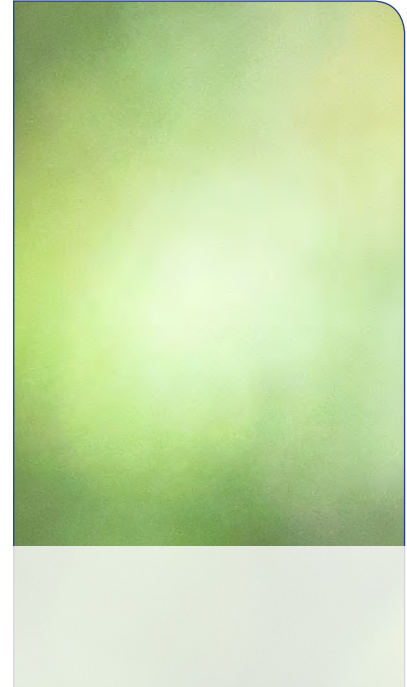


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SURVEY FORMAT, ORIGINATION

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 Common Fund-National Association of College and University Business Officers (NACUBO), which publishes an annual survey of the performance of US college and university endowments.

DATA COLLECTION

The survey for the calendar year ending December 31, 2013 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, the Consortium of African Funds for the Environment (CAFÉ) Secretariat and the Conservation Finance Alliance Secretariat. Direct requests for participation were sent to 79 organizations. In addition, the CFA sent an email containing links to the online version of the survey to the entire CFA membership.

DATA INCLUSION

A total of 50 organizations completed all or part of the survey. Because the

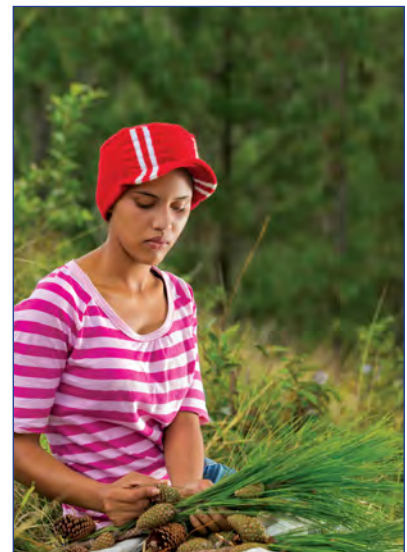


Photo contributed by Fundación Sur Futuro, Dominican Republic

survey was made available online and distributed to the entire CFA membership, some responses were initiated but not completed by organizations that were not CTFs or otherwise did not fit the target demographic of typical participants. As a result, we have removed seven incomplete survey responses from the data set. The report relies on the remaining 43 survey responses – the largest level of participation since the CTIS was launched.

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 43 survey respondents, 37 have elected to participate in the data sharing for 2013; six declined to participate.

FISCAL YEAR

All data and reporting are based on the calendar year 2013 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 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 all participants.

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



Photo contributed by Paquita Bath, Aligning Visions



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

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.

AVERAGE RETURNS

Following procedures used in the NACUBO and Common Fund studies, 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.



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PARTICIPATING FUNDS

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.

Forty-three CTFs participated in the CTIS study this year. All 43 participated in Part 1 (organizational & strategic data) and 33 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 over \$730 million in US equivalent dollars. The CTFs manage endowments and sinking funds ranging from \$1.4M (US equivalent) to over \$120M.

Among the respondents, ten have aggregate investments in excess of \$20M (US Dollar equivalent), eight have investments between \$10M and \$20M, and 16 have investments totaling less than \$10M, as of December 31st, 2013.

Latin American and Caribbean CTFs constituted 49% of the respondents,

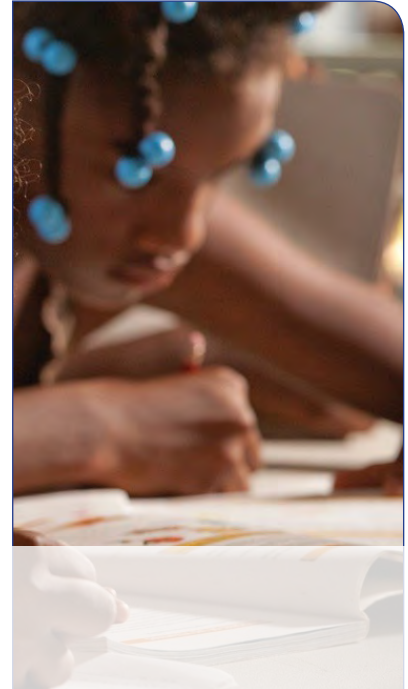


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while 37% were African CTFs, 19% came from Asian or Oceanian CTFs and 2% came from Eastern Europe (see Graph 2).

Graph 2. Participant Demographics

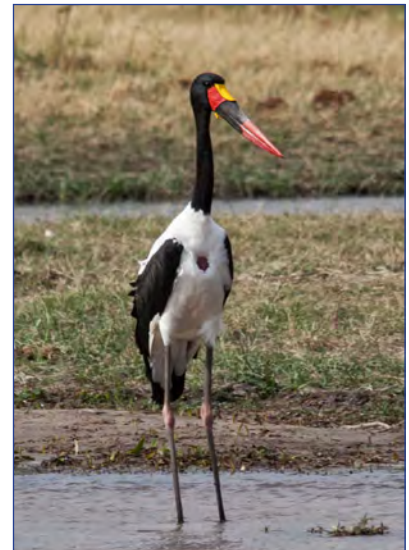
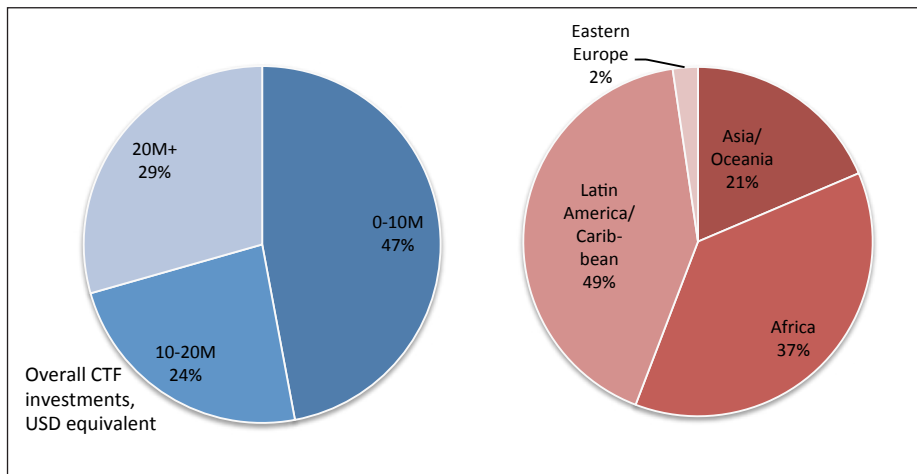


Photo contributed by Arnaud Apffel

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 ten 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 projects 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 which the CTF acts as a third-party financing organization to support conservation efforts.. 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 funding 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.



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

Thirty-two (32) of the participating CTFs manage a single fund, and 11 manage two or more funds. In total, the 43 participating CTFs are managing 55 funds; 39 of these are endowments, 15 are sinking funds, and one was reported as combined data.

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.

AREA AND AGE OF PARTICIPATING FUNDS

This report has compiled data from 43 responding CTFs; at least one other respondent, a CTF still in the formative stages, expressed a willingness to begin participating next year. 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 (nine 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, two prior participants opted not to respond; this was partially offset by one CTF that had not participated in 2012 but returned to provide data this year. The responding organizations range from 0 (newly formed in 2013) to 35 years in operations, with an average age of 11 years.

Africa

Sixteen (16) African Conservation Trust Funds completed the survey this year. The CTIS project and the Consortium of African Environmental Funds (CAFÉ) have identified 33 CTFs and Environmental Funds that are either operational or in development in Africa. Of these, 18 are members of CAFÉ. On average, the African CTFs participating in the survey are 10 years old, and those which provided financial data have average investments of \$15.5M (USD equivalent).

Latin America and Caribbean

Eighteen (18) CTFs from the Latin America and Caribbean region completed the survey this year; 15 of these CTFs are members of the RedLAC network. On average, the Latin American/Caribbean CTFs participating in the study are 12 years old and those that provided financial data have average investments of \$31.8M (USD equivalent).



Photo contributed by Brian McFarland



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

Asia and Oceania

Eight CTFs in Asia and Oceania participated in the CTIS this year; another newly formed CTF initiated the process and will participate when funds are invested. On average, the Asia/Oceania CTFs participating in the study are 12 years old and those providing financial data have average investments of \$7.7M (USD equivalent). As of this writing, CTFs in the Asia-Pacific-Oceania region are preparing to form a network modeled on the experience of RedLAC and CAFÉ, for the purposes of sharing knowledge and ideas.

CURRENCY

The CTFs participating in the study invest in a variety of currencies, although for the most part they measure financial performance in US, Euro or domestic currencies. Fifty-two (52) percent of the funds managed by CTFs are 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. Nine (9) percent of the funds are in Euro or primarily Euro portfolios and 35% are in exclusively or primarily domestic portfolios. Four (4) percent of the funds are in a mix of currencies, with no one currency dominating. Domestic currencies (excluding USD and Euros) include Indian Rupees, Paraguayan Guaranis, Colombian Pesos, Brazilian Reals, Malawian Kwachas, Belize Dollars, Philippine Pesos, Bangladeshi Takas and Botswanan Pulas.

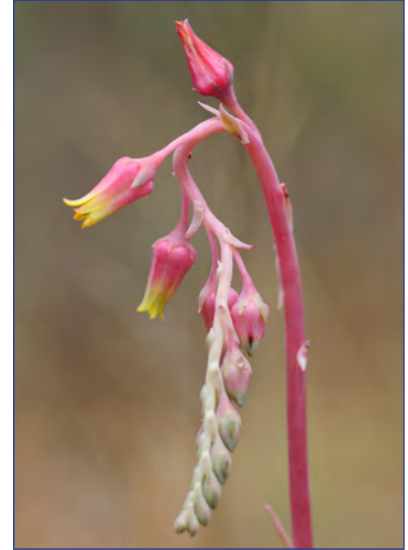


Photo contributed by Lorenzo Rosenzweig Pasquel, Fondo Mexicano para la Conservación de la Naturaleza

Graph 3. Primary Currencies of Funds

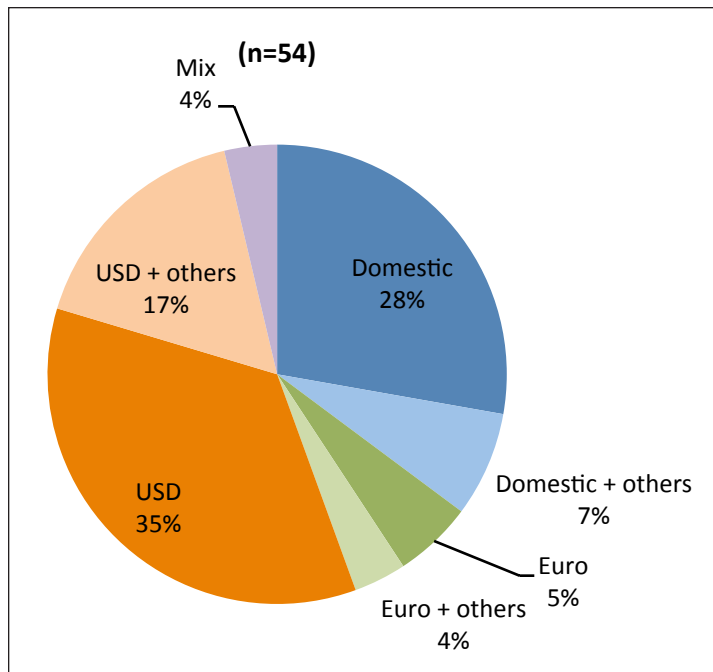


Photo contributed by Fundación Sur Futuro, Dominican Republic



RESULTS AND ANALYSIS

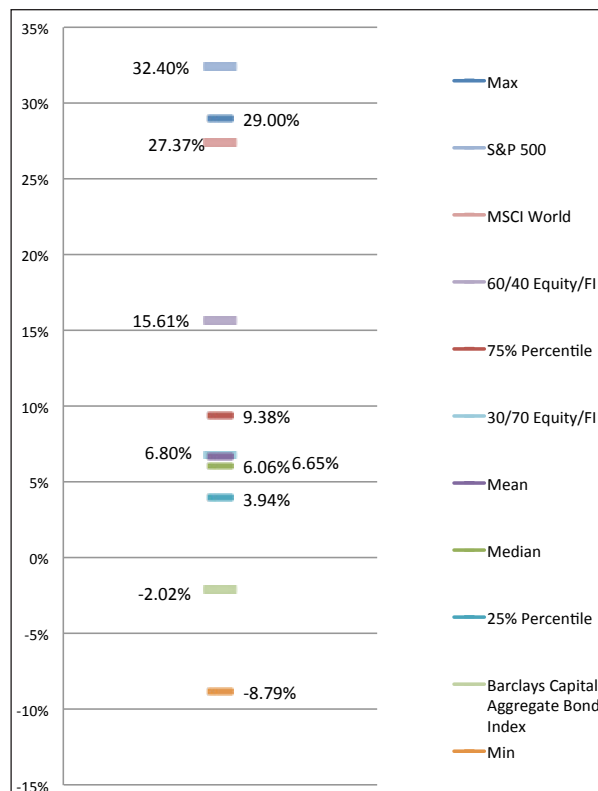


Photo contributed by Fondo de la Iniciativa para las Américas - El Salvador

OVERALL ORGANIZATIONAL RATES OF RETURN (NOMINAL)

The Conservation Trust Funds providing investment returns for the calendar year 2013 reported nominal organizational returns ranging from -8.79% to 29%, with an average of 6.65% and median of 6.06%. Organizational returns of 16 CTFs fall in the interquartile range between the 25th percentile of 3.94% and the 75% percentile of 9.38%. Organizational returns are the average returns for all funds managed by a CTF.

Graph 4. Nominal Organizational 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 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.

Overall, it appears that, on average, the smaller organizations experienced higher returns in 2013, 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 and lower investment fees therefore yield higher net returns.

Table 1. Average Organizational Returns by Size

Size (USD Equivalent) (n=32)	Avg. Org. Returns
0-10M	7.77%
10-20M	6.52%
20M+	4.90%
Overall	6.65%

In fact, a regression analysis of size (both of portfolio and of organization) and returns showed no correlation, 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 -8.79% to 29%) 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.

FUND INVESTMENT PERFORMANCE

A comparison of endowment funds to sinking funds shows that, on average, endowments had slightly higher returns than sinking funds, with average nominal returns of 5.44% for endowments and 2.54% for sinking funds. The median returns were closer, with a median nominal return of 4.5% for endowments and 4.44% for sinking funds. Endowment funds also showed the widest range of returns – a spread of -11.30% to 29% (nominal fund returns) for endowments, versus a smaller spread of 8.79% to 9.75% for sinking fund nominal returns. The sinking funds tended to be more heavily invested in fixed income than the endowments (sinking funds had an average allocation of 71.2% fixed income, versus average allocation of 41.1% to fixed income for endowments), giving them higher exposure to an asset class with low and often negative returns in 2013. This may explain somewhat lower returns for the CTF’s sinking funds, on average, in 2013.



Photo contributed by Paquita Bath, Aligning Visions



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

Graph 5: Nominal Fund Returns

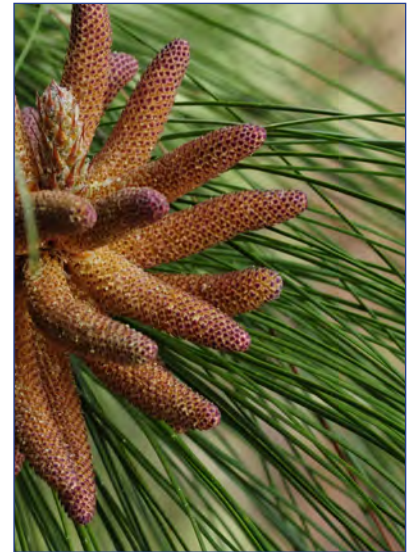
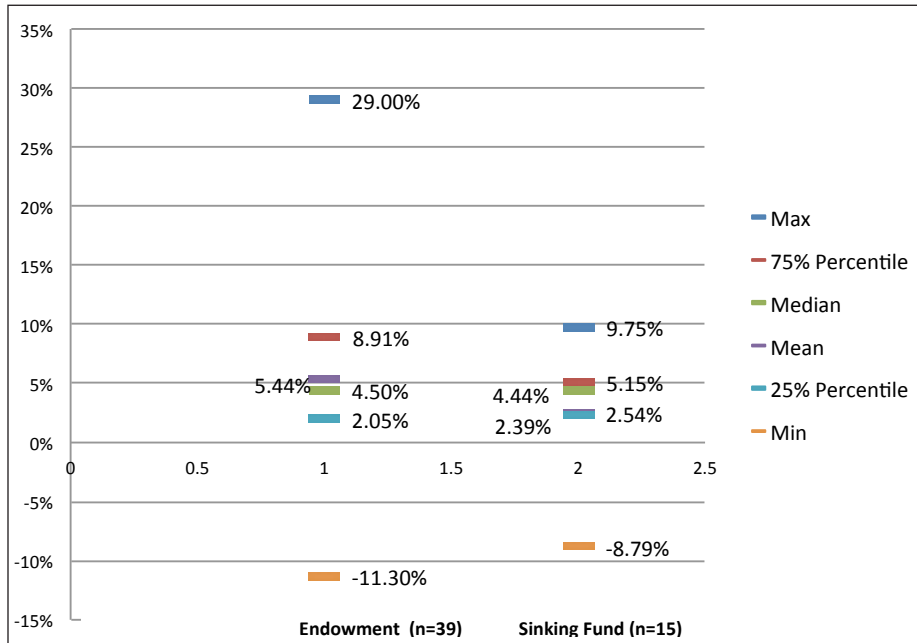


Photo contributed by Lorenzo Rosenzweig Pasquel, Fondo Mexicano para la Conservación de la Naturaleza

BENCHMARKS & TARGETS

The responding CTFs manage a total of 55 funds: 39 endowments, 15 sinking funds, and one reporting combined data. Of these, 36 of these funds measure performance based on a target rate of return, and 39 funds measure performance using benchmarks (18 funds are counted in both numbers, as they use both targets and benchmarks to measure performance).

The average target nominal return across those funds using a target to measure performance was 7.08%. Of the 28 funds that provided both targets and return data, 57% met or exceeded their 2013 targets, and 43% underperformed their target return.

As investment conditions or spending expectations change, CTFs may adjust their target returns up or down from one year to the next. Table 2 shows reported changes in the target returns.

Table 2. Changes to Target Returns

	2012 to 2013 (n=23)	2013 to 2014 (expected) (n=20)
% of CTFs that INCREASED the target returns	17.4%	0%
% of CTFs that DECREASED the target returns	39.1%	30%
% of CTFs reporting NO CHANGE in target returns	43.5%	70%

Thirty-nine (39) 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 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 (2013 returns in parentheses, where available):

Equity Total Return (i.e. includes dividends)

- Morgan Stanley Capital International (MSCI) ACWI ("All Countries World Index") (20.25%)
- MSCI World (despite the name this index only includes developed markets) (27.37%)
- S&P 500, measuring US stocks only (32.4%)
- MSCI Emerging Markets (-2.3%)
- MSCI World Index, Excluding US (12.26%)

Fixed Income

- Barclays Capital US Aggregate Bond Index (-2.02%)
- Citigroup World Government Bond Index, excluding US, All Maturities Commodities

Commodities

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

REITs

- National Association of Real Estate Investment Trusts (NAREIT) Index (2.86%)

In calendar year 2013, only one of the participating CTFs reported nominal returns that exceeded the MSCI World (27.37%) returns in 2013, and none exceeded the S&P 500 (32.4%). Twenty-eight (28) CTFs reported nominal returns that exceeded the Barclays Capital Aggregate Bond Index (BCABI) (-2.02%).

Only three CTFs reported nominal 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 15.61%.

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 are fairly consistent between Africa and Asia/Oceania, with average Latin America/Caribbean CTF returns slightly lower. Average nominal organizational returns for Africa, Latin America/Caribbean and Asia/Oceania were 9.45%, 5.05% and 6.21%, respectively. Eastern Europe has too few data points to report separately.

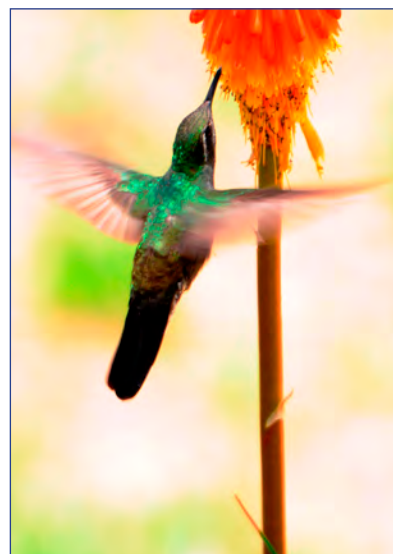


Photo contributed by Lorenzo Rosenzweig Pasquel, Fondo Mexicano para la Conservación de la Naturaleza



Photo contributed by Arnaud Apffel

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 9.9%, 4.1% and 6.0%. Sinking fund nominal returns averaged 7.1% in Asia/Oceania and 0.9% among Latin American/Caribbean funds.

Low returns in Latin America in most cases reflected portfolios that were strongly weighted toward domestic markets that ended up having low or negative returns in 2013. The reverse can also be true; in last year’s report we noted the exceptionally high returns of one CTF, reflecting the very high returns in the domestic market in which it was heavily invested. This points to the importance of multi-year returns versus annual returns; annual volatility can be smoothed out over multiple years, and looking at the returns for just one year does not give the full picture of a CTF’s investment performance. As a general rule, diversification also helps to balance volatility; while emerging markets can be volatile in their highs and lows, there can be a role for that volatility in a portfolio that is otherwise diversified.

Table 3. Average Nominal Fund Returns by Type and Region

Region	Endowment (Average Return)	Sample Size	Sinking Fund (Average Return)	Sample Size
Africa	9.9%	9		
Asia/Oceania	6.0%	5	7.1%	3
Latin America/Caribbean	4.1%	23	0.9%	10
Overall*	6.1%	37	5.1%	13

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

IMPACT OF INFLATION/REAL RETURNS

Inflation Analysis

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 off-shore may find more investment opportunities and a less inflationary environment; however these CTFs must then monitor currency exchange rates to ensure their investment returns are preserved when converted to the domestic currency for spending.

For purposes of this analysis, 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. Therefore, domestic fund returns will be compared to domestic inflation, and funds invested in US or European markets will be compared to US or European inflation. This approach deliberately excludes the impact of currency exchange for off-shore 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.



Photo contributed by Arnaud Apfel

Inflation rates for the reporting funds ranged from 0.3% to 20.14%, with an average of 2.9% and median of 1.93%. The nominal rate of return, adjusted for inflation

provides the real rate of return (see Glossary for formula). Sixteen (16) of 51 funds earned negative real returns; of these, six had also earned negative nominal returns while ten had earned positive nominal returns. On average, incorporating inflation lowered the average returns for all reporting funds by 2.76%.

Graph 6. Comparison of Nominal and Real Fund Returns

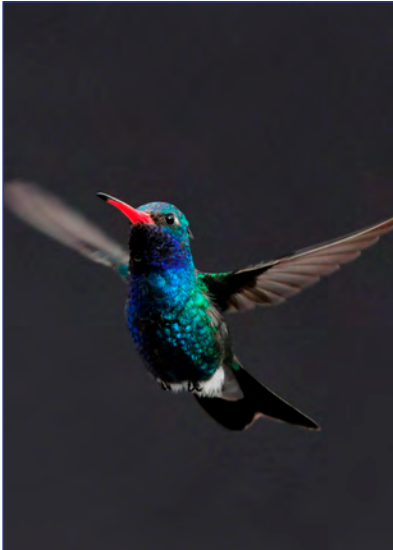
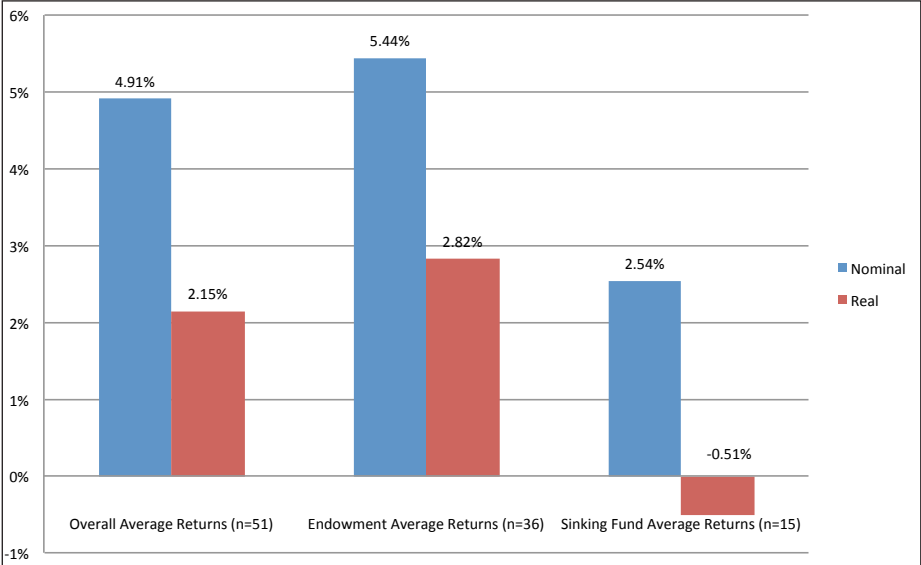


Photo contributed by Lorenzo Rosenzweig Pasquel, Fondo Mexicano para la Conservación de la Naturaleza

Location of Investments

Table 4. Average Nominal vs Real Fund Returns by Primary Currency

	Average Nominal Returns	Average Real Returns
Domestic (n=15)	7.24%	1.39%
Domestic, with others (n=4)	-5.44%	-8.29%
Euro (n=3)	4.87%	3.15%
Euro, with others (n=2)	3.39%	1.87%
Mix (n=2)	5.29%	0.18%
US (n=19)	7.56%	7.19%
US, with others (n=9)	0.03%	-1.76%

While domestic portfolios tended to report among the highest returns in 2013 on a nominal basis, real returns were less robust. 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 15 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 eight funds that are held exclusively in domestic currency by CTFs that do not have other off-shore investments, average nominal returns were 9.19% but average real returns were 2.37%.

With the 2013 survey instrument, a new question was added to better understand why CTFs choose to invest domestically versus off-shore. The question provided several options, with the instruction to check all that applied. The question was asked on a fund by fund basis; of the 17 responses, most (9) indicated that the rationale was due to risk tolerance, i.e. that they felt more comfortable with domestic investments. Legal prohibitions on off-shore investing influenced three funds. None cited experience and expertise, or the investment time horizon, as a reason. Of the eight (8) “other” responses, the explanations were as follows (some were cited by more than one fund):

- Safety, highest rate of return
- Law in the country in which the CTF is incorporated
- Currency hedge and efficiency
- One of two portfolios; the other is off-shore
- Currency risk relative to spending profile
- Policy of investing in Fixed Deposit Receipts with annually fixed interest income

Graph 7. Rationale for Domestic Investments

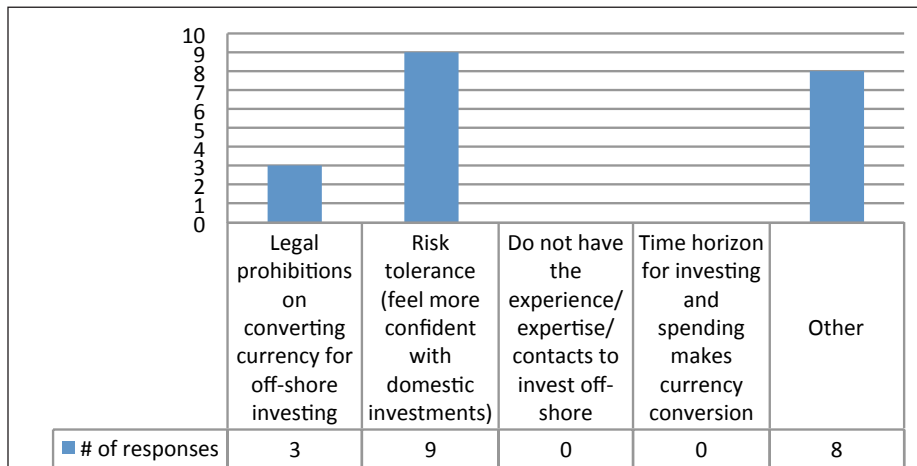


Photo contributed by Brian McFarland

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.

Through the year 2013, the three-year average nominal return for all funds is 5.36%, and the five-year average nominal return is 7.85%. The three- and five-year averages are calculated as a compound annual growth rate. This is, effectively, the return that smoothes out interim fluctuations and shows the effective return from the beginning of 2011 to the end of 2013 (for the three-year) and from the beginning of 2009 to the end of 2013 (for the five-year). While the three-year averages are somewhat lower than last year, the five-year average nominal returns are still above the 7% nominal return that many CTFs target.

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 and 2013.

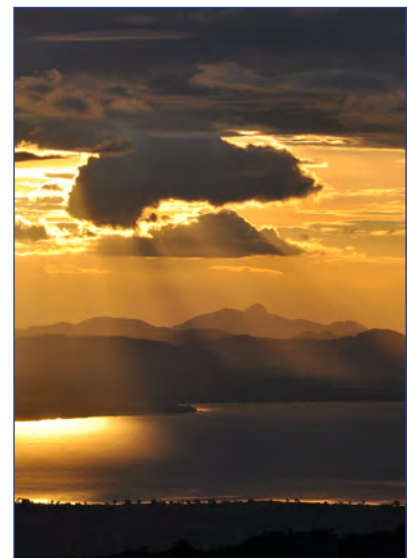


Photo contributed by Carl Bruessow, Mulanje Mountain Conservation Trust, Malawi

Table 5. Three and Five Year Average Nominal Fund Returns, Through 2013

	Three-Year Average Return	Five-Year Average Return
Overall Average (n=21)	5.36%	7.85%
Sinking Fund Average (n=6)	4.62%	6.76%
Endowment Average (n=15)	5.66%	8.29%

Graph 8: Changes in the Average Three Year Returns

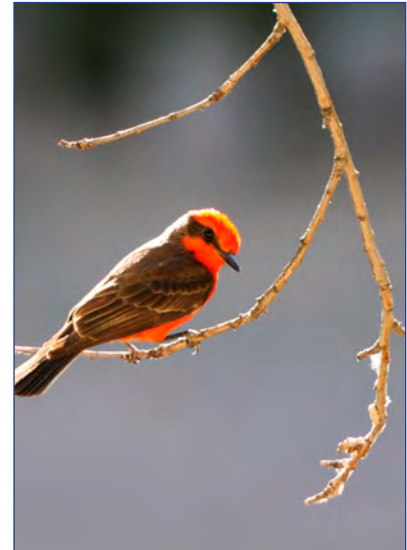
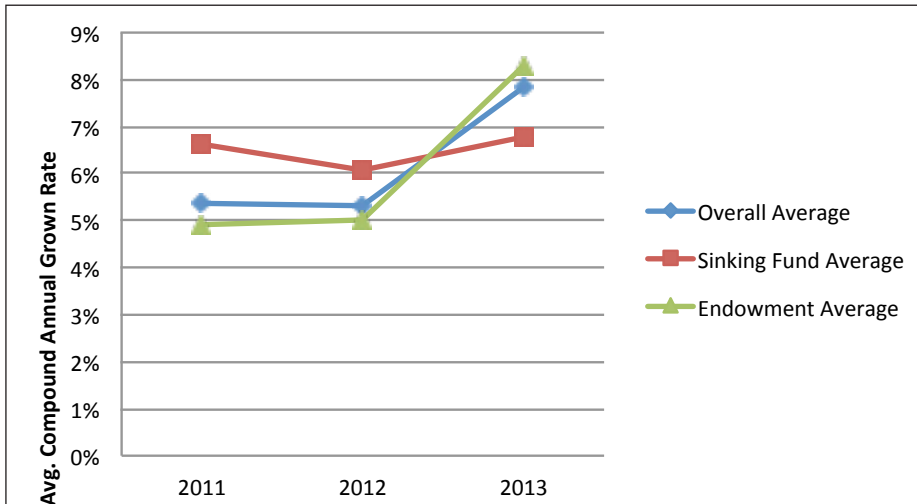
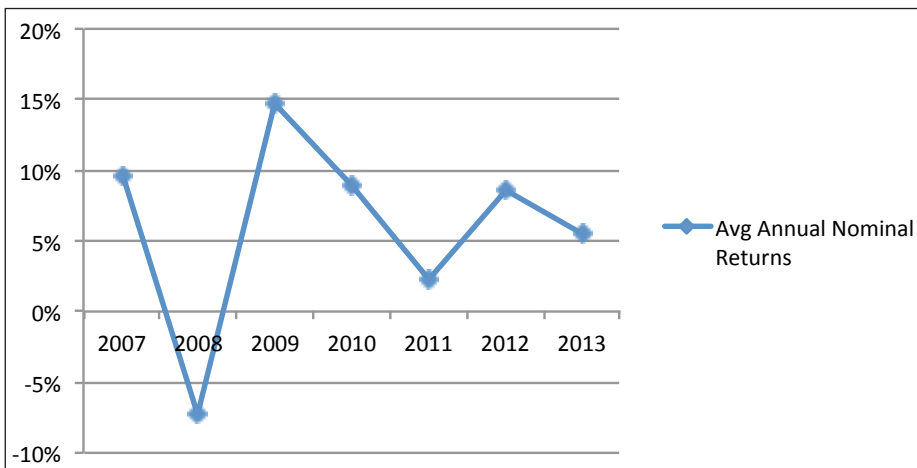


Photo contributed by Lorenzo Rosenzweig Pasquel, Fondo Mexicano para la Conservación de la Naturaleza

Graph 9 provides the annual average nominal returns for the same set of 21 funds, going back to 2007. Returns for these funds, from 2009 to 2013, 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.

Graph 9: Average Annual Nominal Returns for Multi-Year Responders, 2007-2013



By 2013, the five-year average returns have dropped the generally poor performance of 2008, and demonstrate what seems to be the beginning of a positive trend in returns. As noted above, average nominal returns for each of the years 2009-2013 have been positive; even 2011, which marks the lowest point in that time range, was still substantially better than 2008, and we see the strength of those numbers in the five-year average returns, overall and by fund type, as shown in Graph 10.

Table 6: Three Year Average Nominal Fund Returns, Over Time

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

*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

Graph 10: Changes in the Average Five Year Returns





INVESTMENT MANAGEMENT

INVESTMENT STRATEGIES

In determining, and then implementing, their investment strategies, the majority (81%) of the survey respondents indicated that they have an investment policy document to guide investments. Of the others, 14% said they do not have a policy, and 5% 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

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 7 shows the number of CTFs that ranked each of the criteria as first, second or third priority.

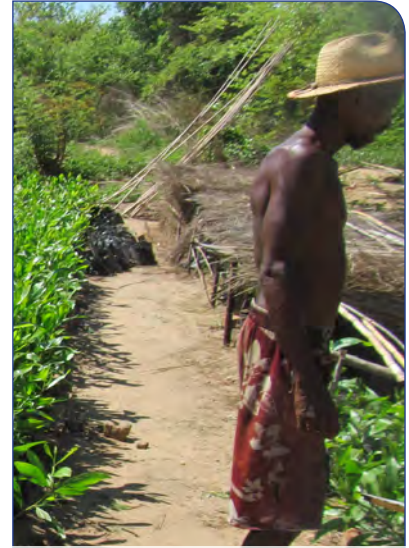


Photo contributed by Fondation Tany Meva, Madagascar



Photo contributed by Brian McFarland

Table 7. 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	5	8	3
Maintain Real Value of Endowment	22	4	5
Interest and dividend income	3	9	11
Capital Gains	6	3	5
Meet specific benchmarks	2	1	2
Social Investing Criteria	1	1	2
Environmental Screens		2	5

*36 CTFs responded to this question. Some CTFs ranked multiple criteria as first priority; as such, responses may exceed 36.

In addition, 74% of the responding CTFs indicated that they have a dedicated investment or finance committee focused on investment policy and oversight. Five percent indicated they do not have a dedicated committee, and the remaining 11% did not answer the question.

ASSET ALLOCATION

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.

Table 8. Average Asset Allocation of Funds

Asset Class	Overall Average (n=55)	Endowment Average (n=39)	Sinking Fund Average (n=15)
Equities	22.98%	28.0%	8.0%
Alternatives	4.11%	4.9%	2.4%
Cash	17.37%	18.1%	15.8%
Fixed Income	49.2%	41.1%	71.2%
Other	6.39%	8.1%	2.5%

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 2007-2013; average nominal investment returns for the funds in each year are noted in parentheses after the year. The growth in “other” reflects two issues; first, several types of investments used by a fraction of the CTFs do seem to defy typical asset classifications. These include preferred stock, investments

considered “distressed” or “opportunistic,” and parastatal debt. The second issue is that the current CTIS questionnaire does not provide adequate options for reporting global mixed-asset investments, which were therefore classified as “other.” This warrants a change to next year’s questionnaire.

Graph 11: Average Fund Asset Allocation Over Time

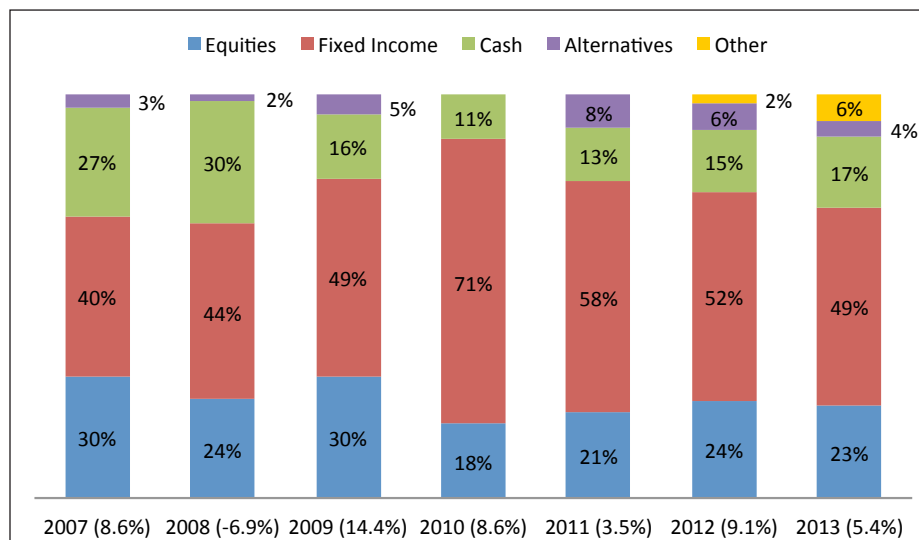


Photo contributed by Paquita Bath, Aligning Visions

INVESTMENT SERVICES

Types of Providers

CTFs vary widely in their use of professional investment services.

Typically, outside service providers can include an investment management consultant, a financial advisor, and/or an asset manager. Investment management consultants offer an array of consulting services focused on portfolio theory, investment strategy and performance measurement; these consultants can also support the investment committee or executive director by selecting and dismissing investment managers. Financial advisors are typically licensed brokers working on behalf of an investment firm. Asset or investment managers are specialists in managing a portfolio of investments, usually with respect to a specific asset class.

Twenty-eight (28) percent of the responding CTFs reported that they did not use an outside advisor; these CTFs relied on their investment committees or trustees to make investment decisions and manage investments. The average nominal organizational return of those CTFs using one or more professional advisors was 6.55%, versus 5.13% for those not using outside advisors.

Of those that used professional advisors, most used asset managers, sometimes (but not always) in conjunction with other service providers.

It is important to note, however, that despite the Glossary, the challenge of terminology, as well as general confusion about the role of different types of investment management professionals, are persistent issues, and present



Photo contributed by TFCA Sumatera

an opportunity both for education, and for further improvement in the data collection process.

Table 9: Use of Investment Services Providers

Type of Service Provider	Number of CTFs Using
Investment Management Consultant (IMC) only	7
Financial Advisor only	2
Asset Manager only	9
IMC and Financial Advisor	1
IMC and Asset Manager	5
Financial Advisor and Asset Manager	1
IMC, Financial Advisor and Asset Manager	4
Other	2

Typical Fees

For those CTFs using professional advisors, the typical fees average 0.12% for domestically-invested funds, and 0.52% for both European-based advisors and US-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.

Communication Expectations

Among those CTFs using outside professional advisors, most CTFs received regular communications in the form of emails, telephone conferences and in-person meetings. Two-thirds of the CTFs who answered the question reported receiving emails, half reported telephone conferences and three-quarters reported in-person meetings, in addition to regular statements and, in many cases, access to account information online.

The majority of CTFs reported receiving monthly or quarterly reports on the performance of the portfolios. They also indicated that their professional advisors provided market analysis on a periodic basis (typically monthly or quarterly, though in some cases semi-annually) and sent articles on investment topics on a monthly, quarterly or annual basis.

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



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

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:

- 50-85% of the return
- 4-7% of the fund's principal
- Income from fixed income investments
- 100% of returns in excess of 2% of the fund's principal

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

RESOURCE MOBILIZATION

While Conservation Trust Funds often 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-three (23) of the responding CTFs reported that they raised funds from sources other than investment returns in 2013. Of these, the most common sources of revenue were multilateral organizations, the private sector, bilateral organizations, foundations, international NGOs and other (e.g. Payment for Ecosystem Services).

Of these, 14 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 36 CTFs that answered the question, over half report no donor-imposed constraints (although two said their donors had to approve the investment policy). Of those that indicate the donors have provided restrictions, the following are representative examples:

- No offshore investment
- Safety of funds and high returns on investments



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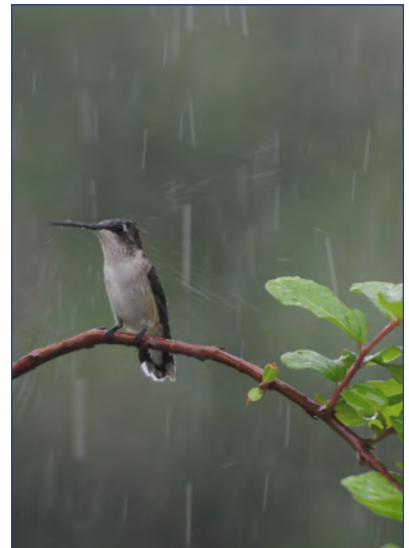


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- Specific geographies, markets or currencies
- Specific asset allocation
- Specific risk restrictions, or specifications of acceptable risk ratings on investment vehicles
- Specific approved investment professionals
- Must not invest in industries/markets 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 35 CTFs that answered the question, three-quarters indicated that their investment policies specifically prohibited 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
- Private investments
- Securities where the issuer has filed for bankruptcy
- Use of derivatives for speculative purposes
- Precious metals
- 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

Additionally, some investment policies specify

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



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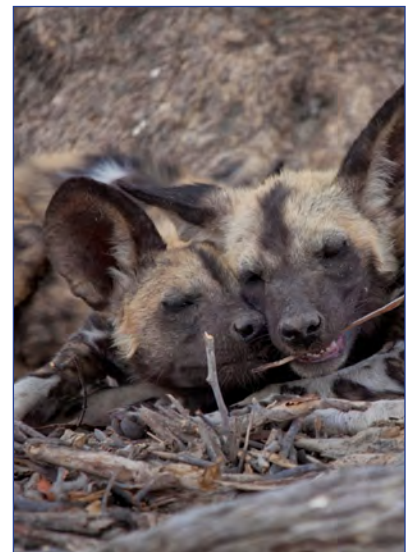


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CONCLUSIONS

In general, the Conservation Trust Funds continue to deliver solid investment returns. While 2013 returns were lower, on average, than those in 2012, the overall and endowment average nominal returns were quite a bit higher than those of 2011, and the three- and five-year average nominal returns remain relatively healthy, at 5.36% and 7.85%, respectively. Three- and five-year average nominal returns for endowments are even higher, at 5.66% and 8.29%, respectively.

Nonetheless, the 2013 results do raise questions about whether the CTFs are, on the whole, optimizing investment returns. The average endowment returns were 5.54%; by contrast, a portfolio that consisted of 60% global equity (as measured by the MSCI World index) and 40% fixed income (as measured by the BCABI) would have earned 15.61% in 2013. To be sure, the actual investment requirements of the CTFs are indeed more complicated than a simplistic hypothetical portfolio can account for, and the art of a well-balanced, diversified portfolio that maximizes return relative to risk means it's necessary to give up some potential upside in exchange for protection against downside risk. That being said, it is also possible to be overly cautious, to the point of foregoing returns that could be supporting conservation work.

In the 2012 report, we noted that over 83% of the CTFs either increased or made no change to their target returns for 2013; nonetheless, actual performance was somewhat lower than 2012's returns. For 2014, of those that responded, 70% reported no planned change to their target returns (relative to 2013) and 30% indicated a decrease in the target return. Meanwhile, we did not see any significant changes in asset allocation, overall, from 2012 to 2013 – fixed income and cash, combined, continued to make up 67% of the average portfolio.

In the 2013 CTIS questionnaire, we included optional questions to find out what training CTF boards had in investment management, and whether there was a

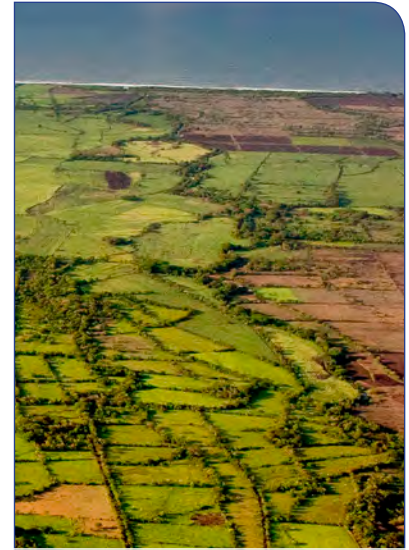


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Photo contributed by Brian McFarland

desire for additional training in this area. Of 30 CTFs that answered the question, nearly two-thirds of the Boards had experienced some degree of investment management education. However, the vast majority were either for Investment Committees, or individual members. Of 32 CTFs that answered whether they were interested in basic or intermediate level training, over 90% indicated an interest in one or both levels. The CTIS project is exploring needs and possible delivery vehicles to respond to this demand.

GLOSSARY OF TERMS²

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.

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

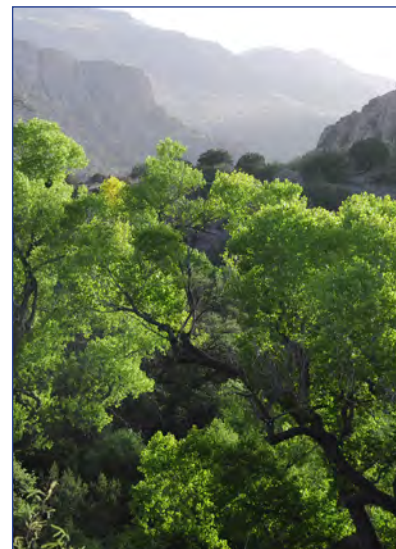


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² The Glossary was updated in February, 2014 to align with the "Practice Standards for Conservation Trust Funds," forthcoming, by Barry Spergel and Kathleen Mikitin, for the Conservation Finance Alliance.

give the client advice on which investment managers to hire and fire.

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 $(1 + \% \text{nominal return}) \div (1 + \% \text{inflation})$, minus 1.



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



Photo Contributed by Fondation Tany Meva, Madagascar

LIST OF PARTICIPATING CTFS

Africa

Country	Name	Contact Name	Email	Website
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Asia/Oceania

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Federated States of Micronesia	Micronesia Conservation Trust	William N. Kostka		www.ourmicronesia.org
Fiji	Sovi Basin Trust Fund	Romas Garbaliuskas		
India	Ashoka Trust for Research in Ecology and the Environment (A TREE)	Ganesan Balachander		atree.org
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Philippines	Philippines Tropical Forest Conservation Trust	Jose Andres Canivel	admin@ptfcf.org	www.ptfcf.org

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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
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Bolivia	Fundación PUMA Fondo Ambiental	Juan Carlos Chávez Corrales	jcchavez@pumafondoambiental.org	www.pumafondoambiental.org
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Mexico	Fondo Mexicano para la Conservación de la Naturaleza (FMCN)	Lorenzo José de Rosenzweig Pasquel	lorenzo@fmcn.org	www.fmcn.org
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