



CONSERVATION TRUST INVESTMENT SURVEY

FOR CALENDAR YEAR 2016



CONSERVATION TRUST



Photo contributed by Rosa Montañez, Fundación Natura Panama

INVESTMENT SURVEY

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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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FONDS FRANÇAIS POUR
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Photo contributed by Arrannayk Foundation

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- Venkat Iyer
- Rosa Montañez
- Lorenzo Rosenzweig Pasquel
- Jeanne Taylor



Photo contributed by Carl Bruessow, Mulanje Mountain Conservation Trust

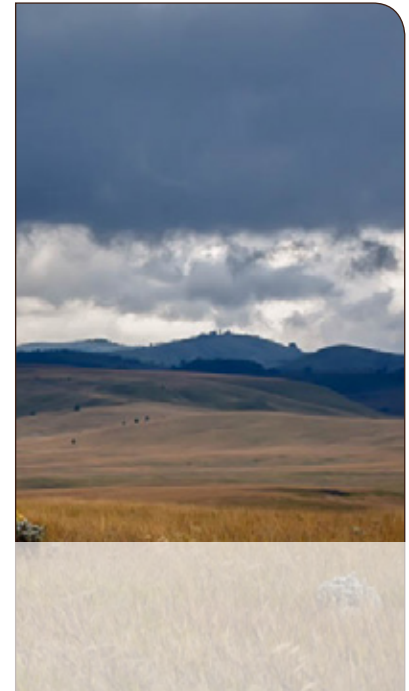


Photo contributed by Venkat Iyer, WCS

Dear Trust Manager,

We are honored again to participate in this 10th Conservation Trust Investment Survey. Its purpose is to help you learn from your peers and lead to improved investment results in service of your crucial work.

Conservation trusts play an important role in protecting the most ecologically sensitive areas of our natural world. As irreplaceable parts of nature are increasingly threatened, it is critical that such trusts grow their assets to provide the funds to accomplish your important mission.

The work of conservation trusts must be carried on for generations. The need to provide for current operations and build the future purchasing power of your trust requires investing for good returns. And history has clearly demonstrated the best asset class for generating good returns is stocks.

Since 1926 US common stocks have returned an average of 10% per year while corporate bonds have returned 5.6%. Given that corporate bonds in the US currently yield 3.5%, the future returns from bonds will fall far short of 5.6%.

Every year we note that the average conservation trust (excluding sinking funds) typically has 30% in stocks, but seem to have little impact in raising that percentage to date. But this percentage is far too low for long-term investors even if the stock market is at a significant peak. To illustrate, imagine an investor buying stocks in October of 2008 prior to the financial crisis and the 50% drop in stock prices. Despite the ensuing turmoil, it proved a good time to buy stocks.

As Brian S. Wesbury and Robert Stein of First Trust wrote recently:

“October 9th will be exactly ten years from the stock market peak before the Financial Panic of 2008.

Imagine that Doctor Doom, the perceived “best analyst in the business,” told you on that night, when markets peaked, that financial authorities would allow ...many well-known financial firms failing or being taken over by the government. You knew the unemployment rate was going to soar to 10% and the economy would experience the deepest recession since the 1930s. ...and you knew the federal debt would be more than 100% of GDP, with massive annual deficits predicted as far as the eye could see.

Then, imagine you were allowed one investment choice, a choice you had to stick to for the next ten years: put all your investable assets in the S&P 500, a 10-year Treasury note, gold, oil, housing, or cash. Pick just one of these assets and let your investment ride.

Which asset would you have picked? Be honest! In that environment, with that kind of foresight, right at a stock market peak, it would have been awfully tough to pick stocks.

And yet...over the last ten years, that's the asset that did the best ... the S&P 500 has generated a total return (capital gains plus reinvested dividends) of 7.2% per year, essentially doubling in value in ten years.

Gold did well, but lagged stocks, increasing 5.7% per year. A 10-year US Treasury note purchased that night (now coming due), would have generated a yield of 4.7%. Oil was a laggard, down 4.3% per year. Home prices increased about 1% per year, on average, and "cash" averaged 0.4%, both trailing the 1.6% average gain in the consumer price index.

You might have slept better by investing in 4.7% Treasury notes...but you'd have fewer total assets today than if you would have kept the faith and stayed long in stocks. And if you wanted to reinvest, now, for the next ten years, your rate would be roughly 2.3%.

So, what's our point? You would have been better off by ignoring all those pessimists who became famous in 2008-09. Investing in companies, and allowing world-class business managers to use your money to build wealth, was once again the best investment strategy. Ten years on, we still think that's true."

Importantly, the "safest" investment, cash, had a negative return after inflation over the ten years. It returned 0.4% per year yet the cost to buy goods and services increased by 1.6% meaning the purchasing power of the cash has declined by 1.2% annually.

Long term, the best way to build your trust's assets is to invest in the stock market. Given the market's frequent and unpredictable violent declines like that in 2008, the only way to approach stock market investing is to take the long view. Forget about what the market does today or tomorrow or for the next year and instead focus on building wealth over the next 10, 15 and 20 years.

An endowment which must make annual payouts should not have 100% of its assets in equities. As we have consistently stated, your trust should have enough cash and/or short term bonds set aside to make your annual distributions for the next three to five years. For the typical trust this means keeping 15-25% in cash and fixed income of limited maturity. If the stock market has one of its periodic corrections of 20% or more, you won't be forced to make your annual distribution by selling stocks when they are depressed and miss the subsequent rebound (however long that might take).

Whether your trust invests in index funds, or active funds hoping to outperform the market, there are a few basic tenets to always keep in mind.

Ignore market forecasts. As Warren Buffett, probably the world's greatest investor, states, "We have long felt that the only value of stock forecasters is to make fortune-tellers look good. I continue to believe that short-term market forecasts are poison and should be kept locked up in a safe place, away from children and also from grown-ups who behave in the market like children." Warren Buffett has never heeded the forecasts of stock market "experts" and you shouldn't either.

Don't time the market. Market timing, moving in and out of the market to capture its ups and downs, requires not one prescient decision but two. First, getting out of the market just before a decline and second getting back in as the market starts to rise. In our 30 years of investing, we haven't found anyone who can do either, let alone both. No one can accurately predict movements of the stock market; accepting this reality will enable you to spend your time on more productive activities.

Nick Murray, author of *Simple Wealth, Inevitable Wealth*, puts it well:

"To build wealth you have to buy and hold equities. Buy them, even when every talking head on TV is blathering that the market is "too high," whatever that means. (If you think the market's "too high" now, wait 'til you see it twenty years from now)...Buy them, at the only right time to buy them: when you have the money to invest."

Legendary mutual fund manager Peter Lynch notes that "far more money has been lost by investors trying to anticipate corrections than has been lost in the corrections themselves."

Patience is a virtue. Nick Murray compares investing to planting a tree:

"You don't dig it up every 90 days to check on its progress. (Nothing much will have changed in that brief time and you might harm

the tree). You don't uproot the tree to store it in your garage over the winter, to protect it from what you regard as "bad weather. Give the tree enough room, enough light, and enough time. Then leave it pretty much alone."

Generating increased wealth takes time, often many years. Occasionally there are stretches of five and even ten years where equities are unchanged in value. Eventually stocks will generate returns close to their long-term average but the timing of those returns is uncertain. In the meantime, you will receive dividends, and the underlying companies' businesses will grow.

Similarly, a stock or a mutual fund declining in value doesn't mean it is a poor investment. If you own quality investments you will do well given enough time. Apple, one of the great stocks of all time suffered two declines of 80%, several 40% drops and a 60% decline during the 2008 financial crisis. Netflix, another great investment, lost 25% of its value in a single day four times and suffered one four-month stretch when it lost 80% of its value.

The lesson isn't to blindly hold onto every investment you make; the point is with quality companies, quality funds, and broad stock indexes, time is your friend if you have the patience to wait for the prize.

Judge results over many years. Whether you invest in index funds or use active managers, don't judge the soundness of your investment plan on the results for one or two years. Even the best money managers and funds suffer periods when they don't do well yet their long-term results are excellent.

A 2011 study by Davis Advisors looked at a universe of mutual fund managers whose 10-year performances put them in the top quartile of all managers over that period. 96% of these top performing managers had a three-year stretch where their performance was in the bottom 25% of all funds. Meaning for that three-year period, 75% of other managers outperformed them. Even superior investors will underperform the market for significant periods.

Don't allow emotion to rule your decisions. Fear and greed lead investors to make their worst mistakes. In early 2009, investors gripped by fear were selling stocks after a 50% decline. A rational, unemotional investor would have recognized selling stocks then was a poor strategy and at some future point stocks would rise when the panicked selling stopped, leading to significant gains. Our natural instinct to flee in the face of danger is not a useful instinct in the world of investing. Don't act on emotion; rather keep focused on long-term goals and make rational decisions.

You will make mistakes. Famed investor Sir John Templeton said all that needs to be said on this subject:

"The only way to avoid mistakes is not to invest --which is the biggest mistake of all. So forgive yourself for your errors. Don't become discouraged, and certainly don't try to recoup your losses by taking bigger risks. Instead, turn each mistake into a learning experience. Determine exactly what went wrong and how you can avoid the same mistake in the future.

The big difference between those who are successful and those who are not is that successful people learn from their mistakes and the mistakes of others."

Thank you for your tireless work in protecting the world's most important natural places. We wish you continued success in this noble cause.

Gregory Alexander and Scott O'Connell
Acacia Partners



Photo contributed by Carl Bruessow, Mulanje Mountain Conservation Trust



Photo contributed by Arrannayk Foundation

Conservation Trust Funds (CTFs) are private, legally independent institutions established to catalyze resources and 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. Coupled with other financing mechanisms, CTFs 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. Many of the CTFs grow to become significant resource mobilization and grant-making institutions, effectively managing and disbursing funds from a variety of sources to support conservation and sustainable livelihood projects. To maximize their available resources for conservation funding, 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, the Pacific, Latin America and the Caribbean. The Conservation Trust Funds described in this study manage endowment funds, sinking funds, revolving funds¹, 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 almost exclusively in local banks or fixed deposits, to globally diversified investment portfolios managed by international investment firms.

In 2016 CTF nominal returns ranged from 5 to 6%, at the mean and median, looking at both overall organization returns and returns for endowments and sinking funds separately. When inflation is considered, the average overall, endowment, and sinking fund real returns are just under 3%.

After low returns in 2015, 2016 was a rebound year in most markets, and CTF returns reflect that. The S&P 500 returned 11.96% for the year overall, compared to 1.38% in

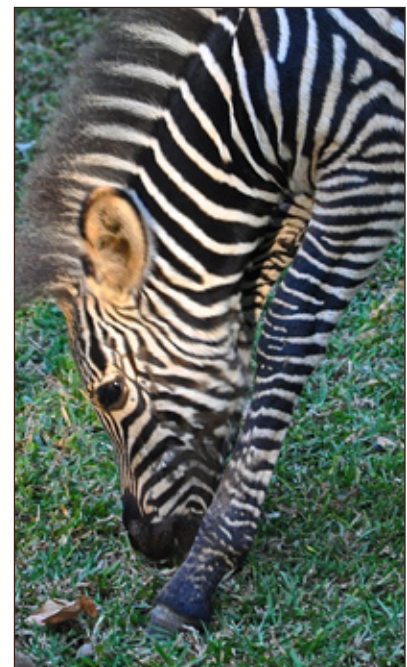


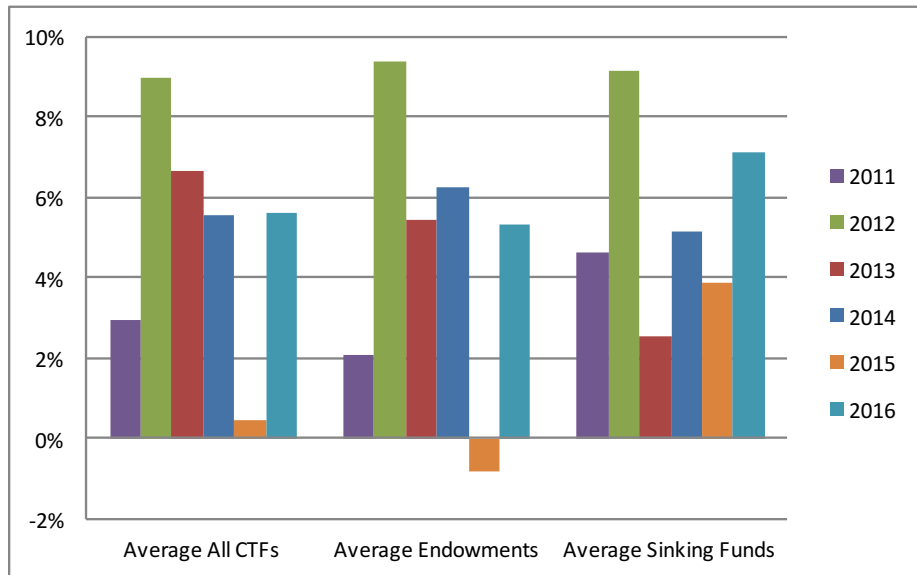
Photo contributed by Carl Bruessow, Mulanje Mountain Conservation Trust

¹ 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 financing mechanisms that CTFs are managing.

2015 and 13.69% in 2014. The MSCI World Index, a measure of developed markets total equity return, had a return of 8.15%, compared to -0.32% in 2015 and 5.5% in 2014. And in the bond market, the Barclays US Aggregate Bond Index returned a modest 2.65% in 2016, compared to 0.55% in 2015 and 5.97% in 2014; for a global comparison, the Barclays Capital Global Aggregate Bond index returned 2.09% in 2016, -3.15% in 2015 and 0.59% in 2014.

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 2016 (ending June 30), the average return of participating university and college endowments was -1.9%; in fiscal year 2015, the average return was 2.4%. It is worth noting that the six months’ difference in reporting periods between the CTIS and NACUBO (December vs June) is meaningful, as July-December 2015 marked a period of negative returns in the global markets which likely affected both CTFs and NACUBO participants, but were captured in FY 2015 for the CTFs and FY 2016 for NACUBO. 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 2016, the average return for endowments in the \$25-\$50M range was -1.6% (versus 1.9% the prior year) and in the under \$25M range was -1.0% (versus 2.3% the prior year).²

Graph 1: Average Nominal Annual Returns, 2011-2016



Average asset allocation for endowment funds of CTIS participants was 35% equities, alternatives & other and 65% fixed income & cash, while the NACUBO institutions invested only 12-13% in fixed income and cash and the remainder in alternatives, equities, and other.



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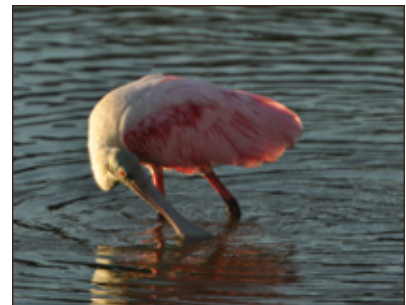


Photo contributed by Lorenzo Rosensweig, Fondo Mexicano para la Conservación de la Naturaleza

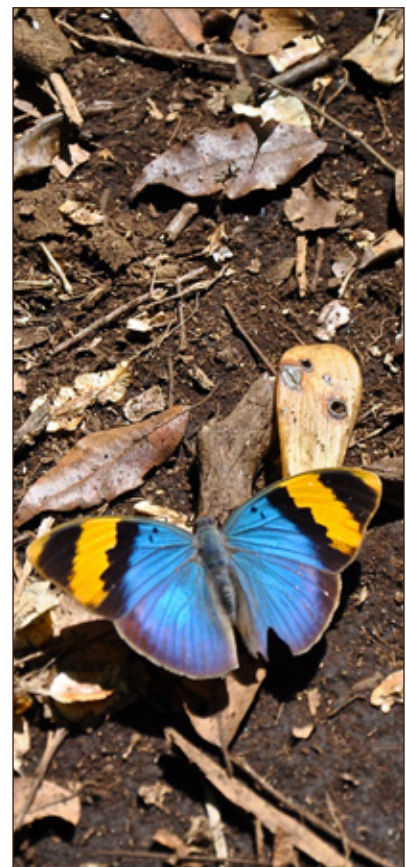


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² 2016 NACUBO-Commonfund Study of Endowments (NCSE). www.nacubo.org

Graph 2: CTIS 2015 Asset Allocation vs. NACUBO-Commonfund Endowments

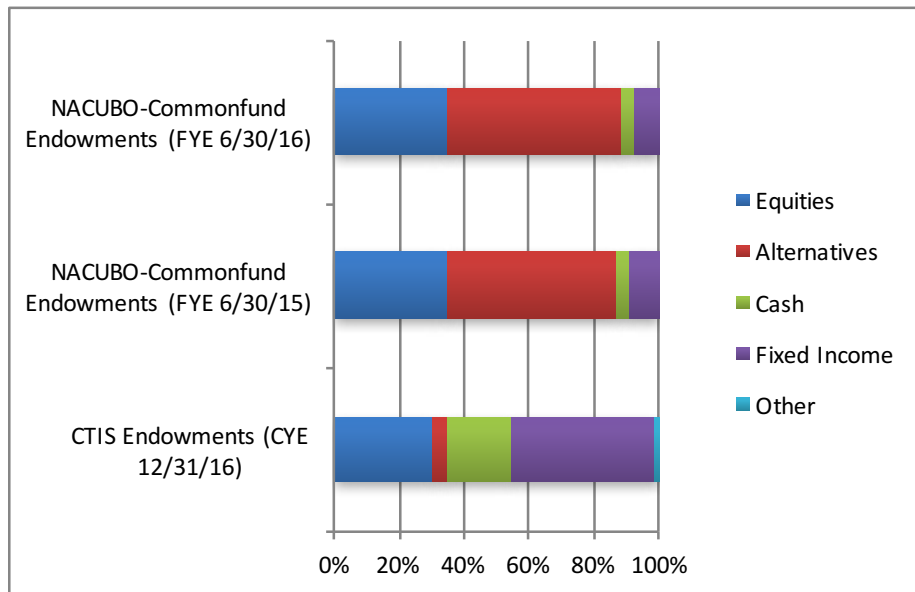


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On a historical basis, three-year average CTF nominal returns for the period ending in 2016 were 3.74%, and the five-year average returns were 5.31%.

Thirty-eight (38) CTFs participated in the study this year, including one CTF participating for the first time. The participating CTFs represent conservation efforts in 47 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 or protected area.

The 2016 CTIS study continues the comparative analysis by region. In 2016, the groupings generally 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/Pacific. However, not all participants in Latin America/Caribbean or Africa are members of a network. Such regional analyses are possible due to the strong participation rates in each of these regions. In addition, two CTFs participate from Europe/Eastern Europe.

With funding from USAID, FFEM and MAVIA through the CFA, and in collaboration with RedLAC and CAFÉ, WCS and the CFA have worked to expand, providing technical assistance and educational support to the CTFs and other CTIS audience members, building on the experience and success of the CTIS. The focus in 2017 has been on rolling out in-person investment management workshops for Trustees/Directors and senior staff of Conservation Trust Funds to help build knowledge and capacity in understanding investments. A longer-term project is to develop online modules, which will be made available to the CTF community.



Photo contributed by Jeanne Taylor, CFA



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INTRODUCTION



Photo contributed by Carl Bruessow, Mulanje Mountain Conservation Trust

BACKGROUND

Conservation Trust Funds provide long term financing for management of protected areas, biodiversity 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, thus helping to conserve important biodiversity worldwide. As of this writing over 90 Conservation Trust Funds have been established or are in active stages of formation; most are still active while a few have wound down and closed or been absorbed into another institution. CTFs exist in Africa, Latin America and the Caribbean, Asia and the Pacific, and Eastern Europe, 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. The regional networks (RedLAC, CAFÉ and the forthcoming Asia-Pacific CTF Network) offer opportunities for knowledge sharing, and several more focused partnerships among a smaller number of CTFs with shared interests have been formed to achieve investment, resource mobilization or programmatic goals.

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 catalyze additional funding for projects, through traditional fundraising as well as the use of innovative financing mechanisms. While most CTFs were originally established to provide a source of reliable funding for the operating costs of managing protected areas, many have become significant national institutions, with multiple effective mechanisms to



Photo contributed by Arrannayk Foundation

- Manage and disburse funds to support a variety of conservation activities;
- Bridge local knowledge and conservation needs at a country or regional level with funding from international organizations;
- 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 beyond what is normal for short or medium term projects, for improved land management in support of biodiversity conservation;
- Provide permanence and stability to long-term conservation efforts; and
- Operate as advocates at national and regional levels for conservation actions, financing, and policies that support biodiversity

Furthermore, while they are usually structured as independent legal entities, CTFs operate as collaborative partners with national governments, working to achieve national objectives under the Convention for Biological Diversity, the UN Sustainable Development Goals, the UN Framework Convention on Climate Change and other international conventions as well as national objectives.

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. In this year’s study we have added a framework that CTF leaders can use to compare their CTF’s investment performance to that of peers; this framework appears on page 22.

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
- Use of investment professionals and typical fee structures



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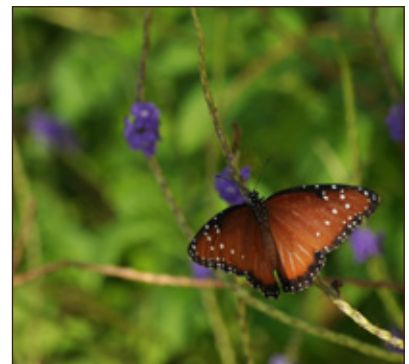


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Photo contributed by Arrannayk Foundation



METHODOLOGY



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SURVEY FORMAT, ORIGINATION

This report is designed to gather and present investment 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, 2016 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. The CTIS Project Manager distributed the surveys directly to CTFs as well as through the Latin American and Caribbean Network of Environmental Funds (RedLAC) Secretariat, and the Consortium of African Funds for the Environment (CAFÉ) Secretariat. In total, direct requests for participation were sent to 61 organizations.

DATA INCLUSION

A total of 38 organizations completed all or part of the survey. Thirty-seven (37) completed Part 1, Strategic Management and 36 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.

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

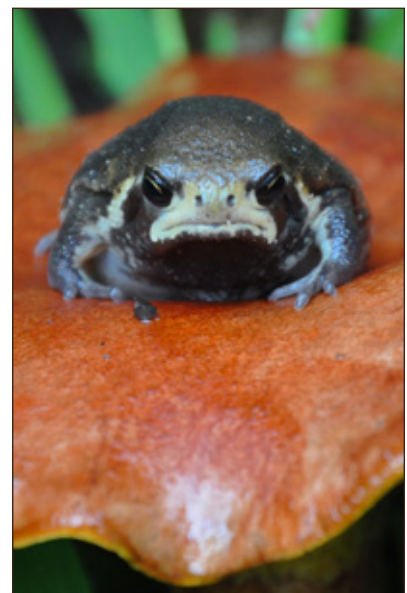


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participating CTFs is provided; however, all financial data are reported anonymously and we have taken steps to ensure that data cannot be tied to specific funds in the published study. The survey instrument provided the option for respondents to opt-in 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 38 survey respondents, 31 have elected to participate in the data sharing for 2016; seven declined to participate or did not answer the question.

FISCAL YEAR

All data and reporting are based on the calendar year 2016 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; it accompanies the CTIS questionnaire as a reference. 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 and with other documentation and studies prepared by the Conservation Finance Alliance (CFA).

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.



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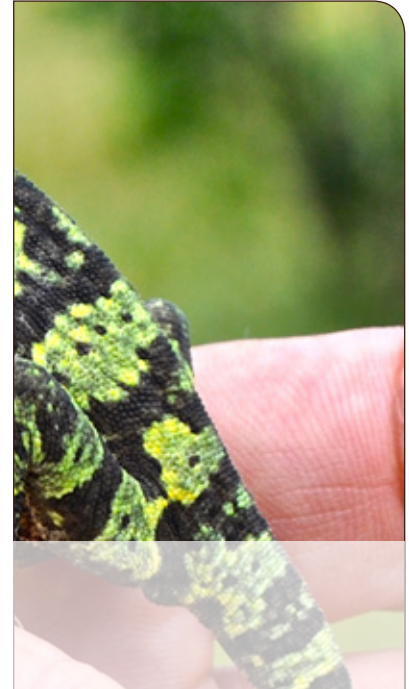


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Conservation Trust Funds participating in this study manage endowments, sinking funds and revolving funds. Most of the CTFs are established as private foundations or trusts; many are established as Non-Governmental Organizations (NGOs) or have been 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 or species, to sizeable nonprofit organizations that manage and invest numerous funds on behalf of varied conservation objectives.

Thirty-eight (38) CTFs participated in the CTIS study this year. Thirty-seven (37) participated in Part 1 (organizational & strategic data) and 35 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, this year's participating CTFs manage nearly \$853.2 million in US equivalent dollars. The CTFs manage endowments and sinking funds ranging from less than \$1M (US equivalent) to over \$120M.

Among those respondents that provided asset values, four have aggregate investments in excess of \$50M (US Dollar equivalent), 11 have investments between \$20M and \$50M, six have investments between \$10M and \$20M, and 14 have investments totaling less than \$10M, as of December 31st, 2016.

Latin American and Caribbean CTFs constituted 49% of the respondents, while 34% were African CTFs, 21% came from Asia/Pacific CTFs and 5% came from Europe/Eastern Europe (see Graph 3).



Photo contributed by Rosa Montañez, Fundacion Natura Panama

Graph 3. Participant Demographics

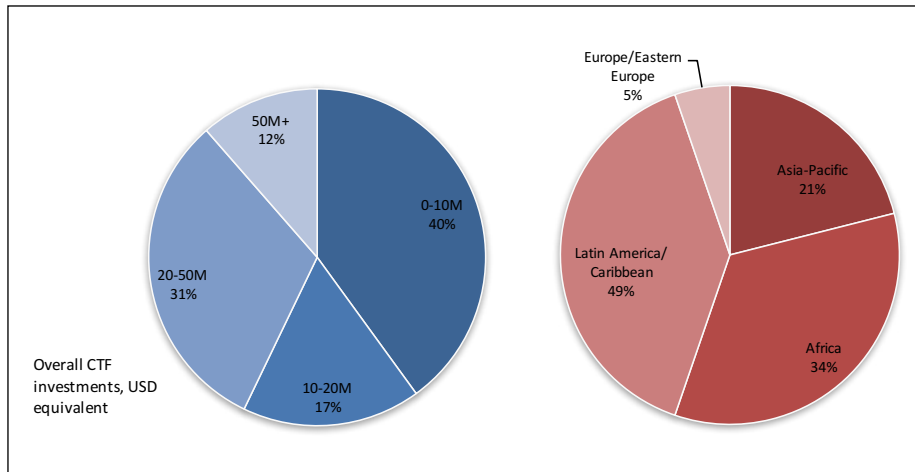


Photo contributed by Arrannayk Foundation

ENDOWMENT AND SINKING FUNDS

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

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 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, the expectation is that endowments will 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; this is known as “intergenerational equity.” There is also an expectation that sinking funds, particularly when they are set up for 20-30 years, will be invested such that economic value (and therefore the ability to support conservation activities) is not lost to inflation.

Twenty-one (21) of the participating CTFs manage a single endowment or sinking fund, and 15 manage two or more funds. In total, the 38 participating CTFs are managing 68 investable funds; 49 of these are endowments, 18 are sinking funds, and one was reported as combined data. In addition, one of the CTFs reported that they manage two revolving funds.

It is worthwhile to note that the responding CTFs were asked to report their data in alignment with the definitions above, and for the most part seem to have

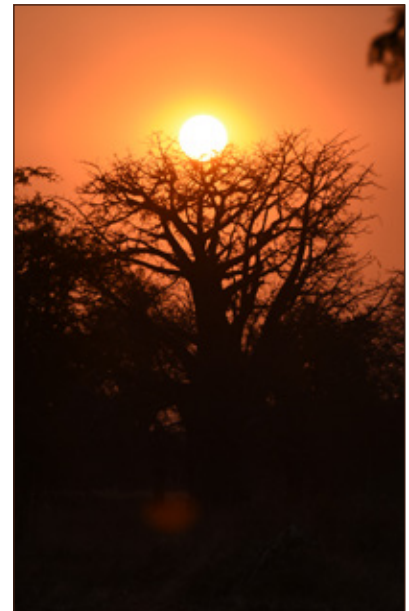


Photo contributed by Rosa Montañez, Fundacion Natura Panama



Photo contributed by Arrannayk Foundation

done so. In some cases, the responding CTFs may have, for reporting purposes, combined multiple endowments or sinking funds that are co-invested under the same investment guidelines, or, alternatively, parsed one endowment into multiple investment portfolios. 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 PARTICIPANTS

This report has compiled data from 38 responding CTFs. Thirteen (13) 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.

The responding organizations range in age from two to 25 years since formation, with an average age of 14 years.

Africa

Thirteen (13) 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 11 years old, and those that provided financial data have average investments of \$18.6M (USD equivalent).

Latin America and Caribbean

Fifteen (15) CTFs from the Latin America and Caribbean region completed the survey this year; 14 of these CTFs are members of the RedLAC network. On average, the Latin American/Caribbean CTFs participating in the study are 16 years old and those that provided financial data have average investments of \$31.5M (USD equivalent).

Asia-Pacific

Eight (8) CTFs in Asia and the Pacific participated in the CTIS this year. On average, the Asia/Pacific CTFs participating in the study are 16 years old and those providing financial data have average investments of \$14.3M (USD equivalent). As of this writing, CTFs in the Asia/Pacific region are collaborating to form a network modeled on the experience of RedLAC and CAFÉ, for the purposes of sharing knowledge and ideas.

Eastern Europe

There are currently two participating CTFs registered in Europe and operating in Eastern Europe/Central Asia, the Caucasus Nature Fund and the Prespa Ohrid Nature Trust (PONT). Because there are only two CTFs we do not break out this region for separate analysis; data from CNF and PONT are included in all aggregate analyses.

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-four (34) percent of the CTFs measure financial performance in domestic or primarily domestic currencies, and 64% measure financial performance in foreign currencies, specifically US dollars or Euros (no CTFs use US dollars or Euros as their domestic currencies). Fifty-four (54) percent of the funds managed by CTFs



Photo contributed by Venkat Iyer, WCS



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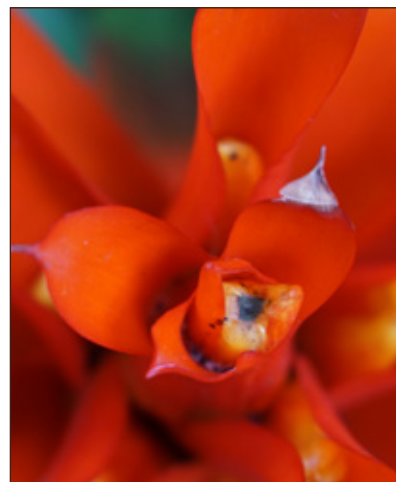


Photo contributed by Jeanne Taylor, CFA

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 23% are in exclusively or primarily domestic portfolios. Two (2) percent of the funds are in a mix of currencies, with no single currency dominating.

Graph 4: Primary Currencies of Funds

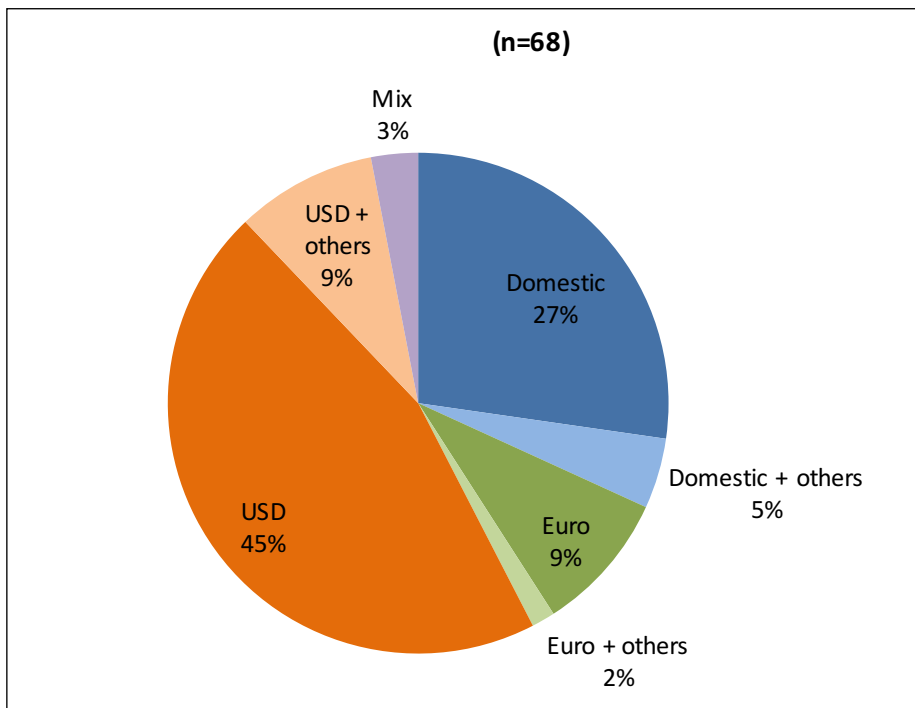


Photo contributed by Arrannayk Foundation



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Photo contributed by Carl Bruessow, Mulanje Mountain Conservation Trust



Photo contributed by Arrannayk Foundation

An Approach to Comparisons and Benchmarking

The CTFs participating in this study are diverse – it is hard to find any two that share many characteristics, much less enough to construct a meaningful peer group of similar CTFs. Currencies, use of domestic vs global portfolios, and other factors create significant variability among respondents. Making comparisons requires a small degree of sleuthing. We report the return data on multiple dimensions, and we encourage readers to use multiple data points to compare their CTFs to others.

The following triangulation steps may be helpful in benchmarking your CTF to others:

1. Your CTF's overall return is a weighted average of all returns reported. Compare it to the range of returns in Graph 5. Are you near the middle? High? Low? How do your returns compare to external benchmarks?
2. Use Table 1 to see how you compare to CTFs of a similar size
3. Look specifically at returns by fund type (endowment and sinking fund) in Graph 6. Are your returns within the interquartile range?
4. Using Table 4, compare how your endowment and/or sinking fund returns compare to others in the same region
5. Calculate your real return: $((1+\% \text{nominal return}) \div (1+\% \text{inflation})) - 1$, or more simply, real return = nominal return minus inflation rate
6. Using Graph 7 and Table 5, compare your real returns to the reported ranges. Does your positioning change?

OVERALL ORGANIZATIONAL RATES OF RETURN (NOMINAL)

The Conservation Trust Funds providing investment returns for the calendar year 2016 reported a very wide range of nominal organizational returns, from -0.41% to 23.57%, with an average of 5.61% and median of 5.00%. Organizational returns of 17 CTFs fall in the interquartile range between the 25th percentile of 3.46% and the 75th percentile of 6.79%; the close clustering around the mean and median values and the relatively small interquartile range suggests that while there is a wide range from minimum to maximum, the bulk of the returns are actually closely grouped. Organizational returns are the weighted average returns for all funds managed by a CTF.

It is important to note that these are nominal returns, not adjusted for inflation, and that they include a large number of funds invested in domestic currency fixed income where returns may reflect a higher risk premium.

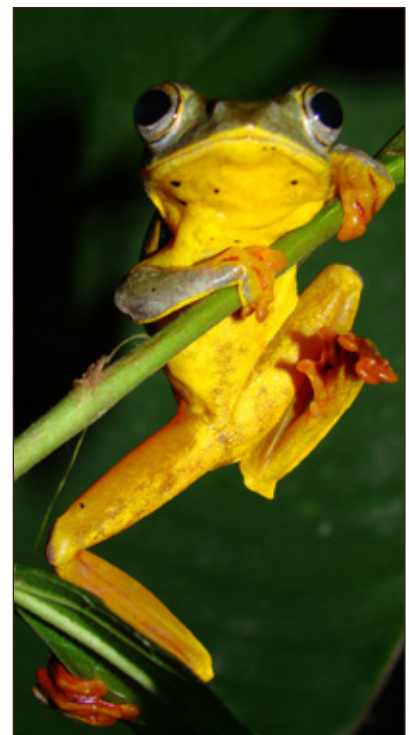


Photo contributed by Arrannayk Foundation

Graph 5. Nominal Organizational Returns

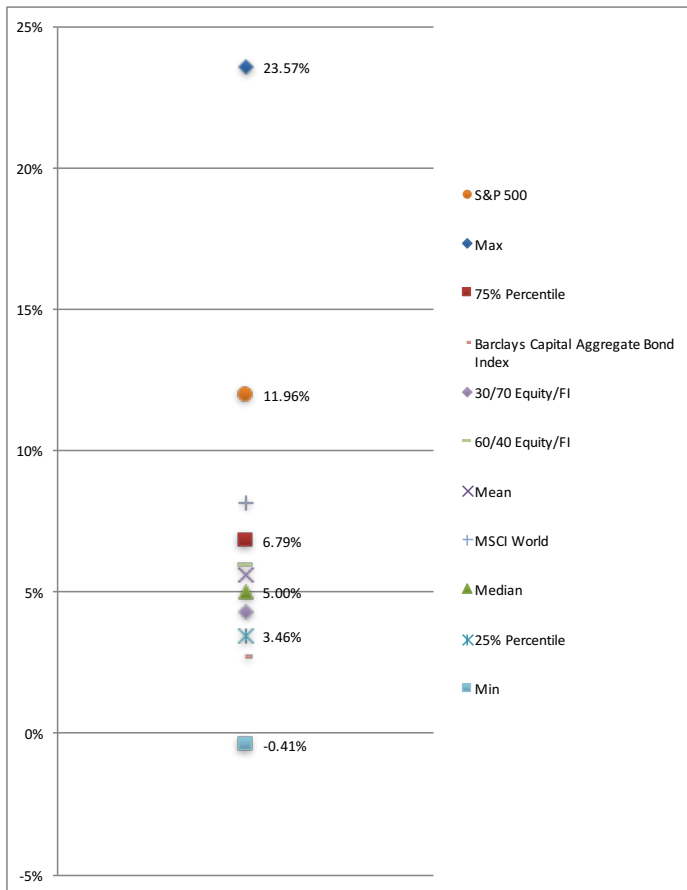


Table 1: Average Organizational Returns by Size

Size (USD Equivalent) (n=35)	Avg. Org. Returns
0-10M	6.57%
10-20M	4.52%
20-50M	4.24%
50M+	7.62%
Overall	5.61%

In this year’s data it appears that the largest CTFs also had the highest nominal organizational returns, on average, as shown in Table 1. While this may be due to access to better investment vehicles due to size, these CTFs also generated higher returns from the domestic portions of their portfolios, which makes comparison challenging.

ENDOWMENT AND SINKING FUND INVESTMENT PERFORMANCE

Endowment and sinking fund returns, on a nominal basis, were relatively close to one another this year. Endowments had an average nominal return of 5.32% and a median return of 5.25%, compared to Sinking Fund average returns of 7.08% and median returns of 6.22% (Graph 6). In general, relative to Endowments, the Sinking Funds tend to be invested more heavily in domestic fixed income products, where interest rates are generally higher than in global markets, often reflecting either higher inflation rates, or higher risk premiums.



Photo contributed by Arnaud Apfel

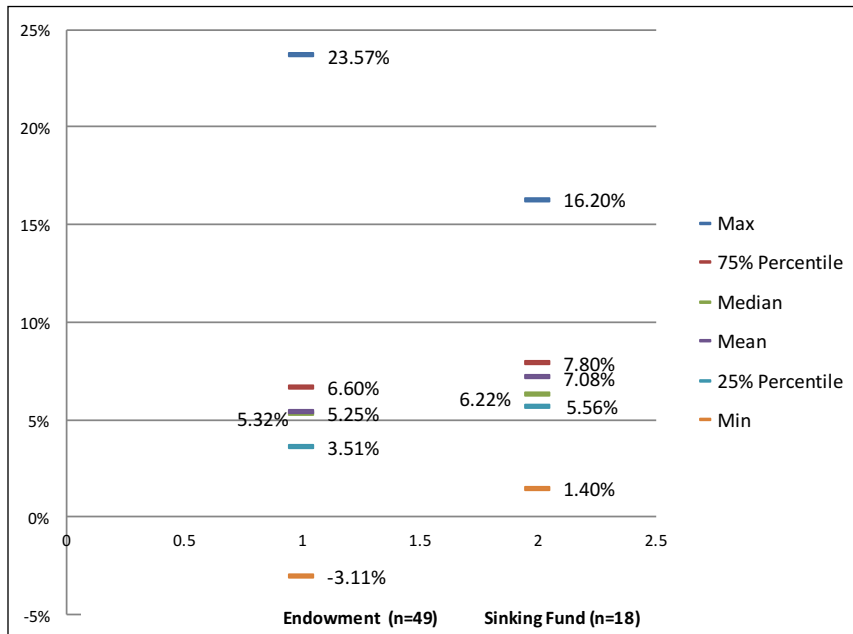


Photos contributed by Carl Bruessow, Mulanje Mountain Conservation Trust



Photo contributed by Arrannayk Foundation

Graph 6: Nominal Endowment and Sinking Fund Returns



Photos contributed by Arrannayk Foundation

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

	2016		2015		2014	
	Mean	Median	Mean	Median	Mean	Median
Endowment	5.32%	5.25%	-0.80%	-2.30%	6.22%	5.69%
Sinking Funds	7.08%	6.22%	3.85%	4.73%	5.11%	5.17%

BENCHMARKS & TARGETS

The responding CTFs manage a total of 68 funds: 49 endowments, 18 sinking funds, and one reporting combined data. Of these, 70 of these funds measure performance based on a target rate of return, i.e. an absolute benchmark, and 48 funds measure performance using relative 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 6.57%. Twenty-nine (29) funds provided us with both targets and actual return data; of these, 17 funds (59%) met or exceeded their 2016 targets, and 12 (41%) 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.

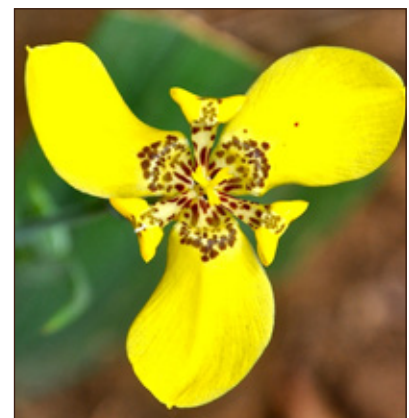


Photo contributed by Carl Bruessow, Mulanje Mountain Conservation Trust

Table 3: Changes to Target Returns

	2015 to 2016 (n=21)	2016 to 2017 (expected) (n=19)
% of CTFs that INCREASED the target returns	42.9%	26.3%
% of CTFs that DECREASED the target returns	23.8%	31.6%
% of CTFs reporting NO CHANGE in target returns	33.3%	42.1%

Forty-eight (48) 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 (2016 returns in parentheses, where available):

Equity Total Return (i.e. includes dividends and capital appreciation)

- MSCI World in USD (despite the name this index only includes developed markets) (8.15%)
- MSCI World in Euro
- S&P 500, measuring US stocks only (11.96%)
- MSCI Emerging Markets in USD
- MSCI World Index, Excluding US
- MSCI EAFE (Europe, Australasia and Far East)

Fixed Income

- Barclays Capital US Aggregate Bond Index (2.65%)
- Citigroup World Government Bond Index, excluding US, All Maturities
- Barclays Corporate High Yield Index
- J P Morgan Corporate Emerging Markets Bond Index (CEMBI) Broad Diversified (Latam)
- J P Morgan Emerging Markets Bond Index Global (EMBIG) Diversified

REITs

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

In calendar year 2016, one of the participating CTFs reported nominal organizational returns that exceeded the S&P 500, and four exceeded the MSCI World. Thirty (30) CTFs reported nominal organizational returns that exceeded the Barclays Capital US Aggregate Bond Index (BCABI).

Twelve (12) CTFs reported nominal organizational returns that exceeded a hypothetical portfolio consisting of 60% equity (measured by the MSCI World Index) and 40% US fixed income (measured by the BCABI). The returns of this hypothetical "indexed" portfolio would be 5.95%.

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.



Photo contributed by Arrannayk Foundation



Photo contributed by Jeanne Taylor, CFA

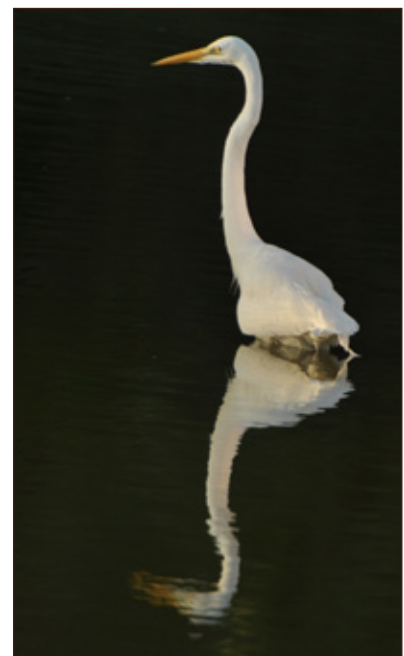


Photo contributed by Lorenzo Rosensweig, Fondo Mexicano para la Conservación de la Naturaleza

RETURNS BY REGION

Average nominal organizational returns for Africa, Latin America/Caribbean and Asia/Pacific were -6.18%, 5.41% and 5.82%, respectively. Eastern Europe has too few data points to report separately.

Average nominal endowment returns by region ranged from 3.52% to 6.53%; average nominal sinking fund returns were 7.28% in the Asia-Pacific region and 7.60% in Latin America/Caribbean (Africa did not report any sinking funds).

Table 4: Average Nominal Endowment and Sinking Fund Returns by Type and Region

Region	Endowment (Average Return)	Sample Size	Sinking Fund (Average Return)	Sample Size
Africa	6.53%	10		
Asia/Pacific	3.52%	6	7.28%	2
Latin America/Caribbean	5.80%	20	7.60%	9
Overall*	5.32%	37	7.08%	12

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

IMPACT OF INFLATION/REAL RETURNS

All CTFs 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. Endowments, in particular, need to consider the importance of intergenerational equity, i.e. the ability to ensure that future generations receive the same benefits from the endowment as current generations; this can only be accomplished by reinvesting returns equal to inflation on an annual basis. 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.

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. We asked the participating CTFs to provide information on what they used to measure inflation; to the extent possible, we use this information for our inflation analysis as well. When the information was not provided by the CTF, we compared the domestic fund returns to domestic inflation, and the returns of the funds invested in US or European markets to US or European inflation rates. 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 0.20% to 21.7%, with an average of 2.82% and median of 0.40%. The nominal rate of return, adjusted for inflation, provides the real rate of return (see Glossary for formula). Thirteen (13) of 68 funds earned negative real returns in 2016. On average, incorporating inflation lowered the average returns for all reporting funds by 2.87%.



Photos contributed by Carl Bruessow, Mulanje Mountain Conservation Trust



Photo contributed by Arrannayk Foundation

Graph 7: Comparison of 2016 Nominal and Real Endowment and Sinking Fund Returns

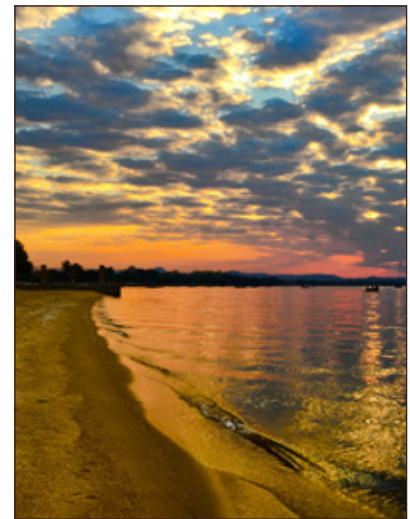


Photo contributed by Venkat Iyer, WCS

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

	Average Nominal Returns	Average Rate of Inflation	Average Real Returns
Domestic (n=18)	8.00%	5.76%	2.24%
Domestic with Others (n=3)	-1.04%	2.49%	-3.53%
Euro (n=6)	4.71%	0.21%	4.50%
Euro with others (n=1)	4.96%	1.55%	3.41%
US (n=30)	5.45%	1.71%	3.73%
US, with others (n=6)	4.11%	2.47%	1.65%
Mix (n=2)	7.50%	2.93%	4.58%



Photo contributed by Carl Bruessow, Mulanje Mountain Conservation Trust

Domestic and mixed portfolios showed the largest gap between nominal and real returns in 2016. This is no doubt due to higher rates of inflation in the developing or emerging economies in which these CTFs are holding investments.

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; 14 respondents provided the following answers:

Table 6: Reasons for Domestic Investment

Reason	Number responding
Legal prohibitions on converting currency for off-shore investing	4
Risk tolerance (feel more confident with domestic investments)	6
Do not have the experience/expertise/contacts to invest off-shore	1
Time horizon for investing and spending makes currency conversion impractical (sinking funds only)	2
Other	6



Photo contributed by Arrannayk Foundation

The six “Other” responses fell into two general categories:

- The fund has an off-shore counterpart, and is therefore the domestic component of a diversification strategy
- Domestic-only investment is specified in the fund’s founding documents, investment policy or other governing documents; however, further rationale for why this is the case was not provided

MULTI-YEAR RETURNS

While the data for any one year is interesting, when looking at investment results it is important to focus on multiple years of data since any one year can show unusual returns. Overall returns in 2015 were comparatively low; 2016 returns have rebounded, on average, which makes the three- and five-year averages important to consider. Multi-year data are available for 25 funds (20 endowments, 5 sinking funds) representing 24 CTFs; one of the funds in the long-term data set did not provide data in 2016. This year, we also took the opportunity to add to this analysis seven funds that have reported data for the last five years, and to remove four that are no longer providing data.

Through the year 2016, the three-year average nominal return for all funds is 3.74%, and the five-year average nominal return is 5.31%. 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 2014 to the end of 2016 (for the three-year) and from the beginning of 2012 to the end of 2016 (for the five-year). The three-year average has declined from last year but the five-year average is up.



Photo contributed by Carl Bruessow, Mulanje Mountain Conservation Trust

Table 7: Three and Five Year Average Nominal Fund Returns, Through 2016

	Three-Year Average Return	Five-Year Average Return
Overall Average (n=25)	3.74%	5.31%
Sinking Fund Average (n=5)	4.56%	4.63%
Endowment Average (n=20)	3.54%	5.47%

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, 2014, 2015 and 2016.

Graph 8: Changes in the Average Three-Year Returns

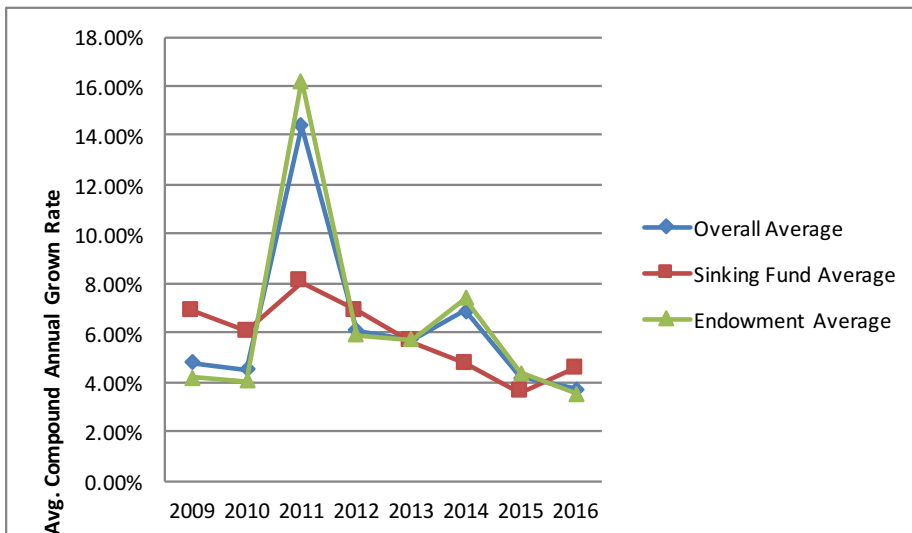
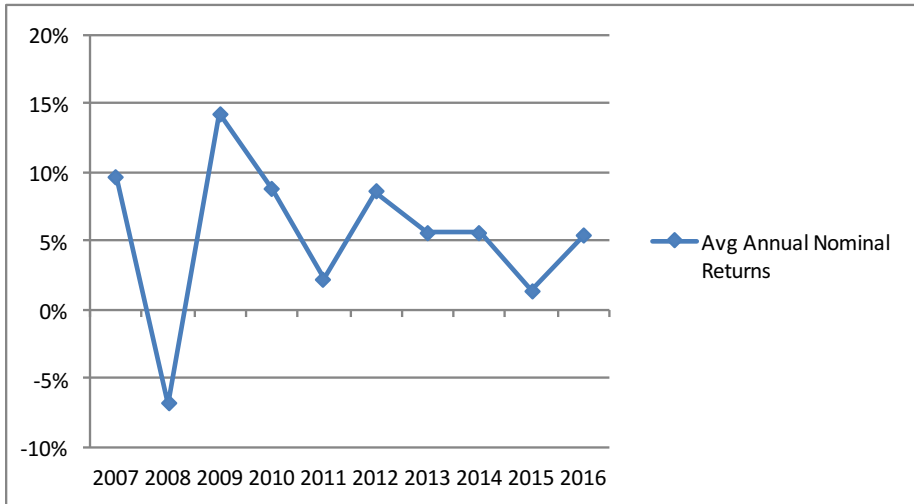


Photo contributed by Arrannayk Foundation

Graph 9: Average Annual Nominal Returns for Multi-Year Responders, 2007-2016



Graph 9 provides the annual average nominal returns for the same set of 25 funds, going back to 2007 (where data are available). After a great deal of volatility from 2007-2009, we've seen relatively stable averages from 2009-2016. This annual variation is smoothed out when looking at three and five-year average returns. In a forthcoming supplemental article, we will study in more detail the variation among different portfolio allocations over time, to try to identify any long-term trends in performance.

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	2015	2016
Overall Average	4.78%	4.51%	14.38%	6.12%	5.71%	6.88%	4.20%	3.74%
Sinking Fund Average	6.88%	6.07%	8.05%	6.88%	5.65%	4.73%	3.60%	4.56%
Endowment Average	4.19%	4.07%	16.19%	5.90%	5.72%	7.41%	4.36%	3.54%

(Note: Of the 25 funds with multi-year data, 16 have data beginning in 2007, one has data beginning in 2008 and seven have data beginning in 2012; one fund did not report financial data in 2016. Averages may differ from numbers reported in prior years due to the inclusion of new historical data.)



Photo contributed by Arrannayk Foundation

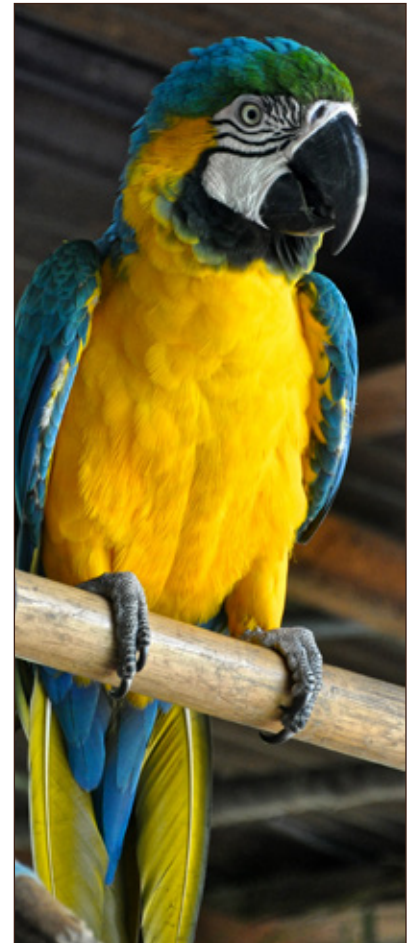


Photo contributed by Carl Bruessow, Mulanje Mountain Conservation Trust



Photo contributed by Rosa Montañez, Fondacion Natura Panama

Graph 10: Changes in the Average Five-Year Returns

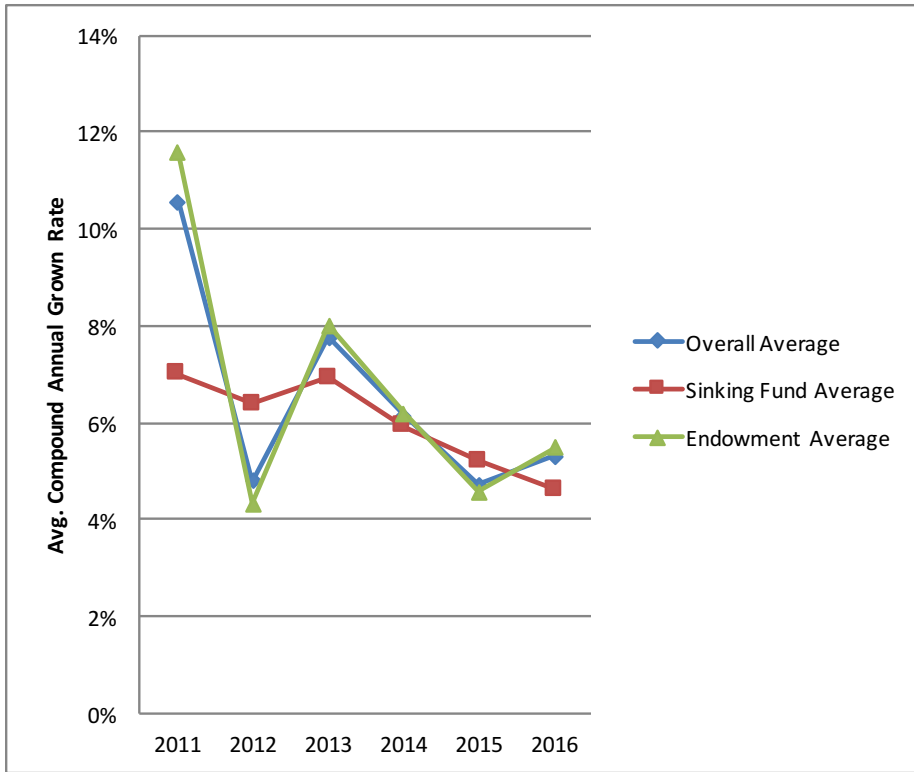


Photo contributed by Rosa Montañez, Fundacion Natura Panama



Photo contributed by Arrannayk Foundation

By 2013, the five-year average returns had dropped the generally poor market performance of 2008; a dip after 2015 has partially recovered although not fully to pre-2015 levels. Of particular note is the steady decline in sinking fund average returns since 2013; sinking funds tend to be invested in fixed income instruments, and interest rates have been generally declining over that time period. While average endowment returns have generally stayed above 4%, it is important to note that these are nominal returns that do not account for inflation.



Photo contributed by Carl Bruessow, Mulanje Mountain Conservation Trust



INVESTMENT MANAGEMENT



Photo contributed by Arrannayk Foundation

INVESTMENT STRATEGIES

In determining, and then implementing, their investment strategies, 33 (86.8%) of the survey respondents indicated that they have an investment policy document to guide investment decisions. Of the others, one said they do not have a policy, and four 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 growing the real value of the endowment, 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.

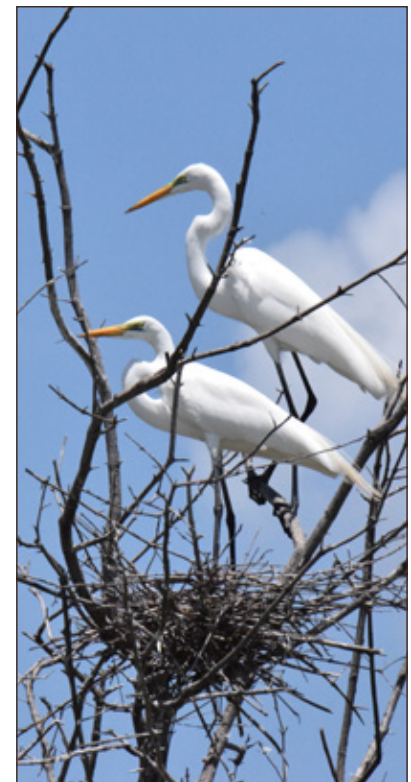


Photo contributed by María José González, MAR Fund

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	5	10	1
Maintain Real Value of Endowment	18	7	5
Growing the Real Value of Endowment	7	4	9
Achieving a target income (interest and dividends)	7	5	9
Meet specific benchmarks	2	3	2
Achieving social or environmental impact with investments	2	2	1
Avoiding investment in specific companies or investments (negative screens)	3	0	1

* 29 CTFs responded to this question. Some CTFs ranked multiple criteria as first priority; as such, responses may exceed 29.

In addition, 89% 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 (34 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. 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 versus value); currency; location of investment; time horizon; and the underlying perceived volatility of the assets themselves.

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 anticipated low rates of return for cash relative to other asset classes. When combined, cash plus fixed income represent 70% of the overall average asset allocation, 64% of the average endowment allocation and 88% of the average sinking fund allocation.

By contrast, the average asset allocation in the 2015 NACUBO study for North American college and university endowments was only 12-13% fixed income and short-term securities & cash, with the remainder in alternative strategies, equities, and other³. This is illustrated in Graph 11.

³ Alternative strategies for the NACUBO study participants consisted primarily of private equity; marketable alternative strategies such as hedge funds, absolute return, derivatives; venture capital; private equity real estate; and energy and natural resources.



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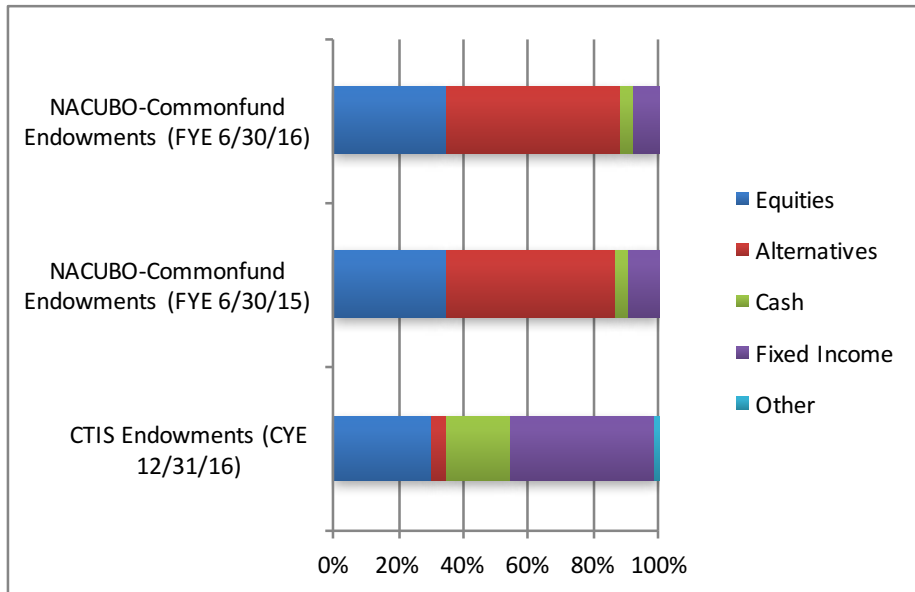


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Table 10: Average Asset Allocation of Funds

Asset Class	Overall Average (n=65)	Endowment Average (n=48)	Sinking Fund Average (n=16)
Equities	25.8%	30.4%	10.4%
Alternatives	3.7%	4.5%	1.7%
Cash	23.51%	20.1%	35.0%
Fixed Income	46.04%	43.8%	52.9%
Other	1.02%	1.4%	0%

Graph 11: CTIS 2016 Asset Allocation vs. NACUBO-Commonfund Endowments



Over time, the asset allocations for the funds have ranged from 37 to 71% in Fixed Income and 18 to 30% in Equities, with as much as 30% of the portfolio in cash. Graph 12 shows the average fund asset allocation from 2007-2016; 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.

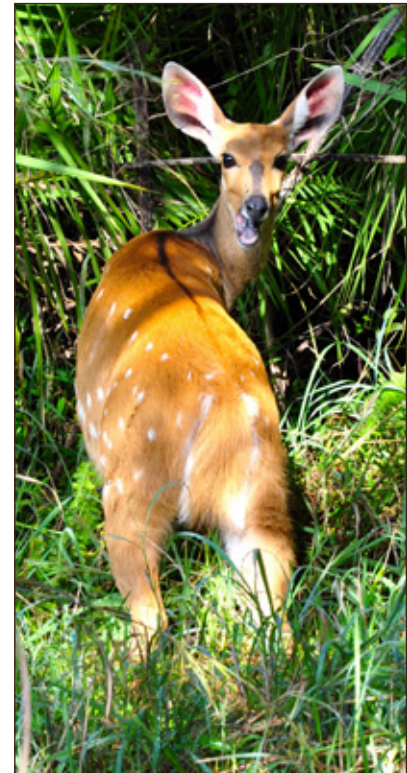


Photo contributed by Carl Bruessow, Mulanje Mountain Conservation Trust

Graph 12: Average Fund Asset Allocation Over Time

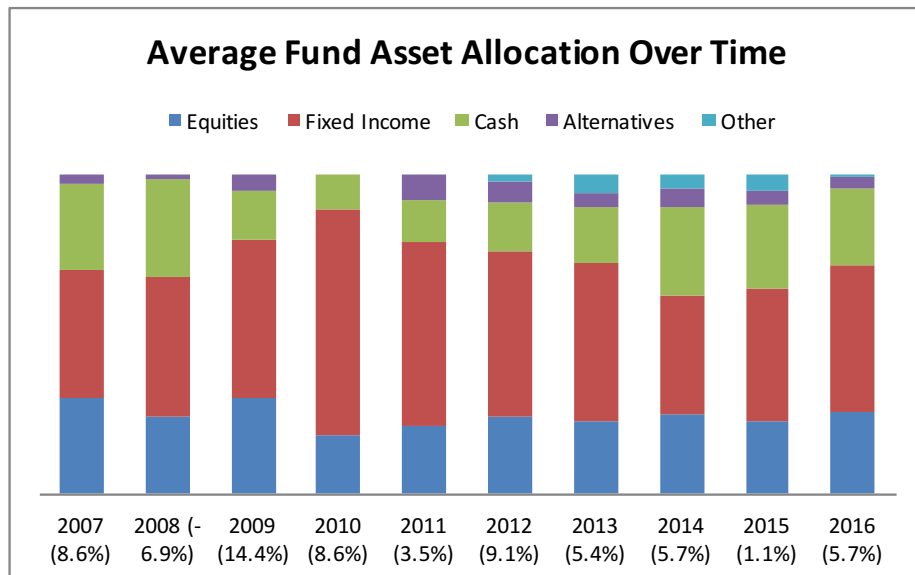
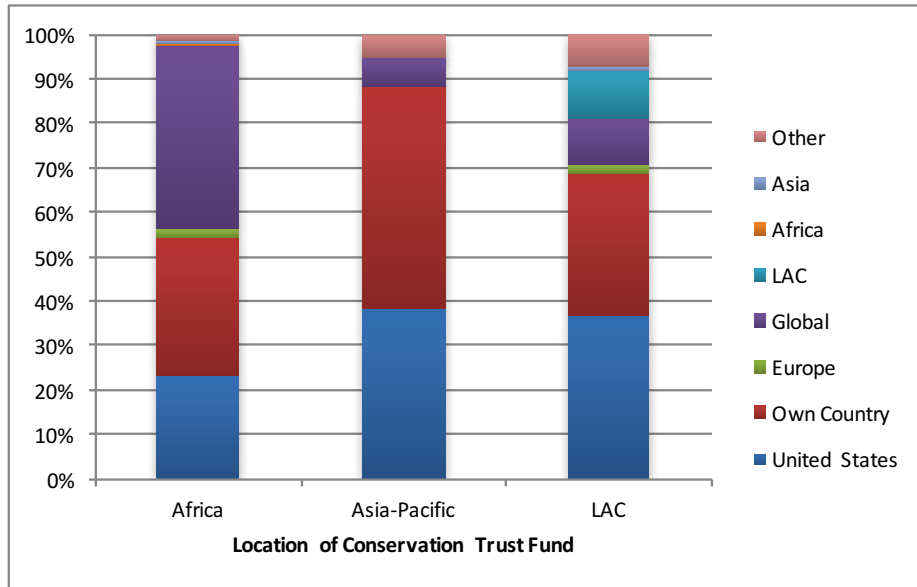


Photo contributed by Arrannayk Foundation

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.

Graph 13: Location of Investments



* 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. Latin America/Caribbean investments would equal 42.95% (31.82% “Investments in Own Country” plus “11.13% Investments in LAC”).

Of the three regions represented, the African CTFs tend to be the most geographically diversified. The Asia-Pacific CTFs, on average, are invested to a large extent in their own countries. The LAC CTFs are invested in their own countries as well as in other LAC countries, showing a regional preference. “Other,” in most cases, indicated “Emerging Markets.”

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 modified 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 if so, where, and 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

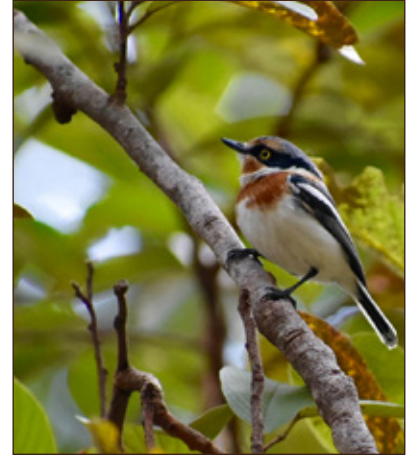


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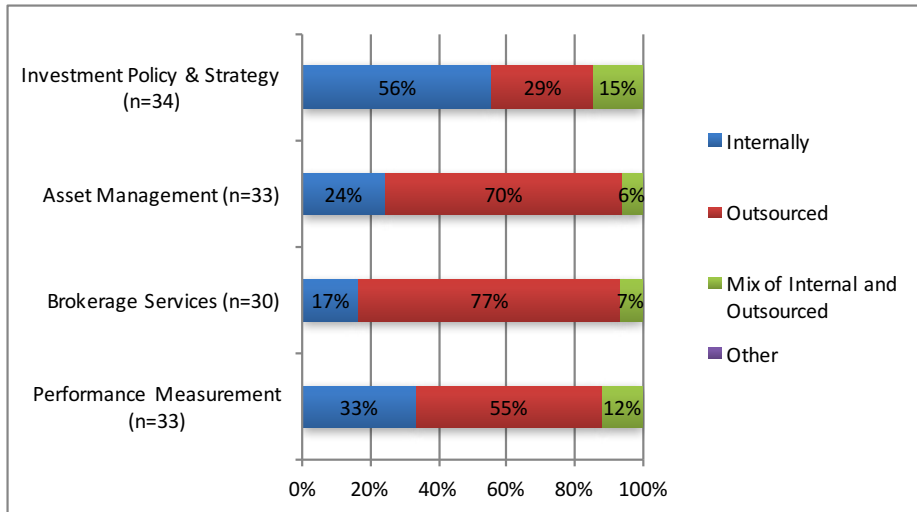
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- Custodial services provider i.e., holding assets in safekeeping and arranging settlement of any transactions (purchases, sales, dividends, foreign exchange, etc.)
- Performance attribution and measurement, cost control, risk analysis

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.

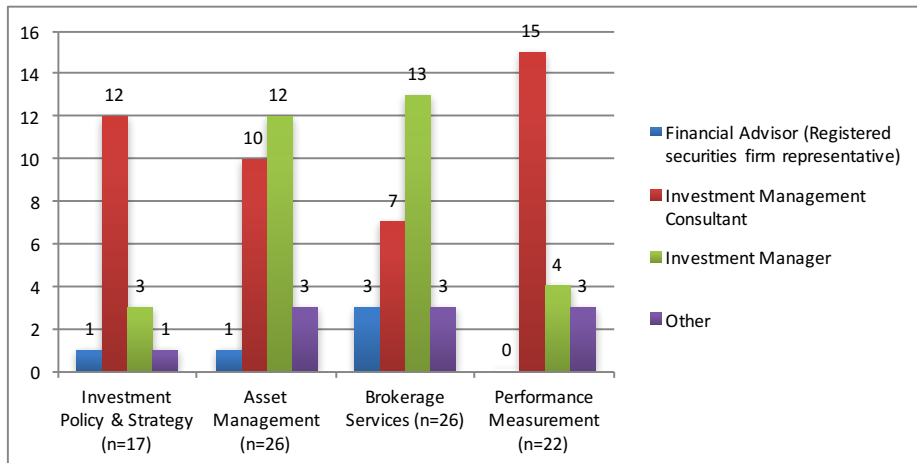
The responses are illustrated in Graph 14.

Graph 14: Staffing Models for Investment Functions



For those CTFs that outsourced all or part of a function, the CTFs were asked what type of investment professional provided the services: Investment Management Consultant, Financial Advisors or Investment Managers (see Glossary for definitions).

Graph 15: Types of Investment Professionals



Typical Fees

For those CTFs using professional advisors, the typical fees average 0.1% for domestically invested funds, and 0.53% for US-based advisors and 0.56% for European-

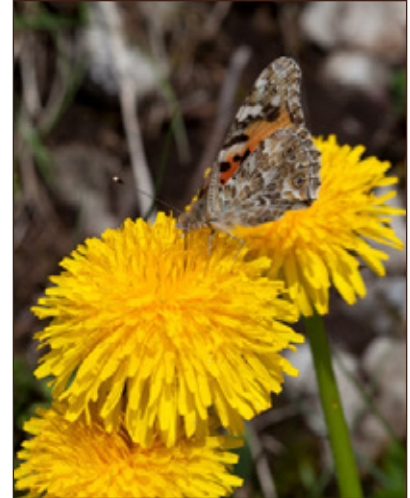


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based advisors. Notably, the US and European-based advisors were more likely to be investment management consultants or financial advisors, where a higher fee might be expected. It is also worth noting that CTFs invested domestically tended to be invested 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. We also ask 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.

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)
- 3.5-5% of the fund's principal
- Income from fixed income investments
- A set percentage (75-85%) of that year's returns

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

RESOURCE MOBILIZATION

While Conservation Trust Funds frequently start out spending endowment income and sinking fund resources, usually the ultimate goal is that the organization will serve as a catalyst to attract other resources to support the conservation objectives. Indeed, some of the more established CTFs look at ways to diversify their revenue streams and have succeeded in attracting new sources of financing, while newer CTFs are developing their initial sustainability plans to ensure a diversified revenue strategy, using multiple financing mechanisms to avoid over-reliance on any one source or type. As the CTFs have established successful public-private partnerships and demonstrated financial management capability and ability to innovate, they have often become effective catalysts for added conservation funding.

Twenty-six (26) of the responding CTFs reported that they raised funds from sources other than investment returns in 2016. Of these, the most common sources of revenue were national governments, and multilateral, multinational 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, eight CTFs reported adding investment returns to their capital base.



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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 33 CTFs that answered the question, 15 reported no donor-imposed restrictions. Of the 18 that indicated the existence of donor restrictions, they listed the following as representative examples:

- 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. Often, the donors are part of drafting or approving the initial investment policy. In some cases, CTFs list not donor restrictions, but rather donor guidance for the investment objectives, such as:

- Funds should be invested safely and generate high returns
- Investments should preserve purchasing power while funding annual environmental projects
- Funds should be globally diversified and generate a 5% return after inflation

Donors have also required the use of experienced professionals to manage investments.

In addition to donor-imposed restrictions, of the 33 CTFs that answered the question, 28 indicated that their investment policies specifically prohibited certain types of investments, to ensure alignment with the mission or values of the organization, prevent negative impact to the CTF's reputation, and/or to manage portfolio risk. The following examples are representative of some excluded investments:

- Industries or investments that damage the environment, including:
 - Addressing whether companies have adequate environmental remediation or emission treatment practices
 - Trade and wildlife products regulated under CITES
 - Production or trade in or use of unbound asbestos fibers
 - Logging equipment for use in primary tropical forests that may have a significant impact on the environment
 - Mining equipment for use in primary tropical forests that may have a significant impact on the environment
 - Drift net fishing in the marine environment using nets in excess of 2.5 km in length



Photo contributed by Carl Bruessow, Mulanje Mountain Conservation Trust



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- o Production or trade in pharmaceuticals subject to international phase outs or bans
- o Production or trade in pesticides/herbicides subject to international phase outs or bans
- o Carbon-extractive industries
- Industries such as gambling, alcoholic beverages, tobacco, arms and military products, pornography, and nuclear energy
- Individual (non-managed) commodities and futures contracts
- Private placements
- Illiquid investments (e.g. partnerships with no exit)
- 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
- Leveraged investments
- Private investments
- Real estate investments through real estate mutual funds
- 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

Additionally, some investment policies specify

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

Several investment policies also make specific mention of ensuring investments follow laws of the host country, or of avoiding investments in money laundering ventures. While these statements may appear to be self-evident, there is often a value in stating them explicitly.

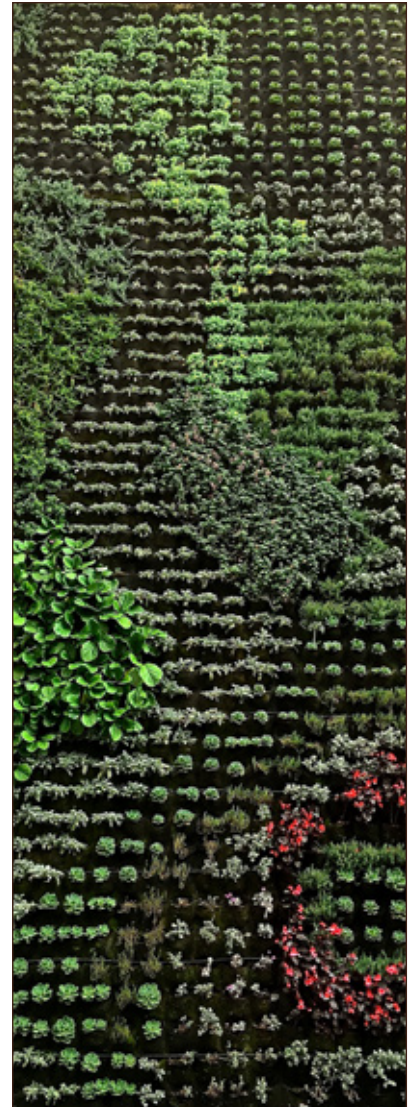


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CONCLUSIONS

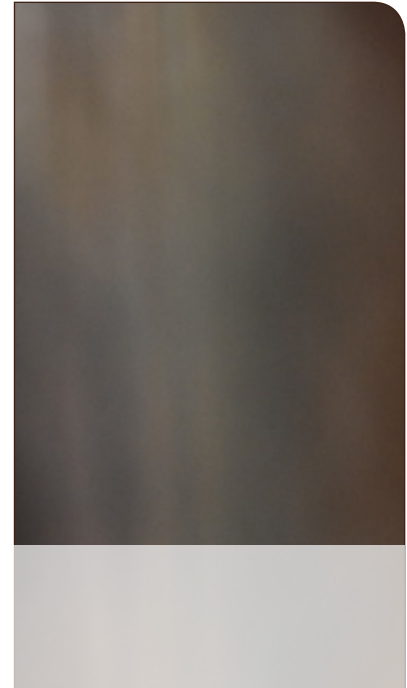


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Returns in 2016 showed a rebound, on average, from disappointing returns in 2015, and this is reflected in the multi-year returns as well.

In 2016, we see that real returns (those after inflation) were just under 3%, on average. The goal of an endowment is to balance intergenerational equity, that is to say, to ensure that future generations receive the same benefits from the invested assets as current generations. It is therefore instructive to look back at recent years of real returns to see how the CTFs are doing.

Table 11: Average Real Returns, 2012-2016

	2012	2013	2014	2015	2016	Five Year Average
Overall	5.56%	2.15%	3.16%	-3.02%	2.86%	2.14%
Endowments	5.90%	2.82%	4.08%	-3.72%	2.93%	2.40%
Sinking Funds	4.92%	-0.51%	1.83%	-1.08%	2.98%	1.63%

Overall, CTF endowments are producing a five year average real returns at just under 2.5%. Given reported spending rates that range from 3.5-5%, this suggests that CTFs, on average, are probably not recapitalizing to cover inflation. Long-term, this means the asset base will erode relative to future expenses, and the endowment will be of less economic benefit to the CTF. The CTFs have the opportunity now to revisit their asset allocations and determine if they are adequate to ensure both current spending and long-term inflation protection for the coming years. Indeed, in the Foreword to this Survey, Greg Alexander and Scott O’Connell encouraged CTFs to review their allocations and see whether an increase in equity holdings may be warranted, as these assets have the most long-term growth potential.

With the publication of the 10th CTIS study, we have accumulated a wealth of data. In the coming months, we will continue to mine this data for supplemental long-term analyses. An initial area of study will be to look at specific asset allocations to see how they have performed over time.



Photo contributed by Carl Bruessow, Mulanje Mountain Conservation Trust

In 2017, with financial support from USAID, the CTIS project launched a series of investment management workshops for Trustees (Board Directors) and staff of Conservation Trust Funds, with a goal of building capacity among the key fiduciaries and decision-makers linked to the CTFs. In 2018 the goal will be to offer additional sessions of the workshop to reach more participants, and to explore the feasibility of adding an online modality to maximize the number of participants. In this way, the CFA will expand access to information on investing and help create more informed dialogue between the CTFs and investment professionals for the benefits of the CTFs and of the planet's biodiversity.

The work to analyze the performance of asset allocations, along with the development of the training course on investment management for CTFs, represent efforts by the CFA to support the CTFs in making the best investment decisions possible. CTF investment success is a key element to ensure that each organization is in a position to meet its mission objectives over the long term. And that is good for conservation.



Photo contributed by Arnaud Apffel



Photo contributed by Arnaud Apffel

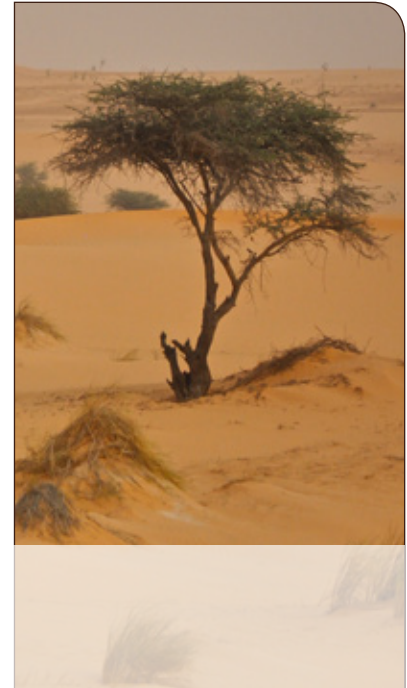
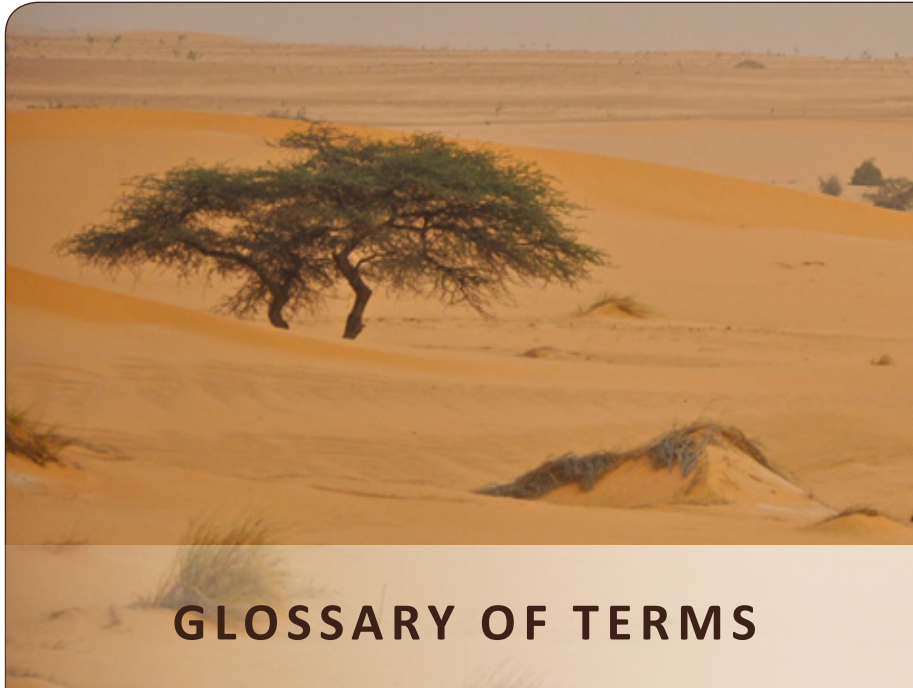


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Conservation Trust Fund (CTF) -- CTFs are private, legally independent institutions that provide sustainable grant funding for biodiversity conservation. They often finance part of the long-term management costs of a country's protected area (PA) system 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.

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.



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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.

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.



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Photo contributed by Carl Bruessow, Mulanje Mountain Conservation Trust

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Cameroon, Central African Republic, Congo	Tri-National Sangha Foundation	Dr Théophile Zognou	fondationtns@yahoo.com	www.fondationtns.org
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Tanzania	Tanzania Forest Fund	Dr. Tuli Salum Msuya		www.forestfund.go.tz



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Asia/Pacific

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Federated States of Micronesia	Micronesia Conservation Trust	Willy Kostka	director@ourmicronesia.org	www.ourmicronesia.org
Fiji	Sovi Basin Trust Fund	Romas Garbaliuskas		
India	Ashoka Trust for Research in Ecology and the Environment (A-TREE)	Dr. Kartik Shanker		www.atree.org
Indonesia	Yayasan Keanekaragaman Hayati Indonesia (Indonesian Biodiversity Foundation)	M.S. Sembiring	sembiring@kehati.or.id	www.kehati.or.id
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Eastern Europe

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Armenia, Azerbaijan, Georgia	Caucasus Nature Fund	Geof Giacomini		www.caucasus-naturefund.org



Photo contributed by María José González, MAR Fund

Latin America/Caribbean

Country	Name	Contact Name	Email	Website
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Bolivia	Fundación para el Desarrollo del Sistema Nacional de Áreas Protegidas (FUNDESNAF)	Sergio Martín Eguino Bustillos	seguino@fundesnaf.org	www.fundesnaf.org
Bolivia	Fundación para la Conservación del Bosque Chiquitano	Roberto Vides Almonacid		www.fcbc.org.bo
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Peru	Peruvian Trust Fund for National Parks and Protected Areas (PROFONANPE)	Alberto Paniagua Villagra	apaniagua@profonanpe.org.pe	http://www.profonanpe.org.pe
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